CHALLENGES OF MICROCREDIT ACCESS AND USAGE FOR MICRO-, SMALL-, AND MEDIUM-SCALE ENTERPRISES IN THE UPPER WEST REGION, GHANA.

ID: GJDS-UBIDS-102405

Fauster Agbenyo[1]
fagbenyo@ubids.edu.gh
(Corresponding Author)
Department of Planning
Faculty of Planning and Land Management

Paul B. Domanban[2]
pdomanban@ubids.edu.gh
Department of Development studies
Faculty of Integrated Development Studies

Samuel Sekyi[3]
ssekyi@ubids.edu.gh
Department of Economics
Faculty of Social Sciences and Arts

Simon Diedong Dombo University of Business and Integrated Development Studies, Wa[1,2,3]

Doi//https://dx.doi.org/10.4314/gjds.v21i2.4

ABSTRACT
The article examined the challenges confronting women micro-, small-, and medium-scale entrepreneurs (MSMEs) in accessing and utilizing microcredit from microfinance institutions (MFIs) in the Upper West Region of Ghana. The article used a cross-sectional design and mixed-methods approach with a sample of 274 MSMEs. It employed questionnaires to rank the challenges, while interviews elicited the entrepreneurs' experiences regarding challenges they confront. Garrett's constraints ranking statistics and verbatim presentation from interviewees were adopted to analyse and present the quantitative and qualitative data, respectively. The results indicate that out of ten constraints, delayed disbursement of microloans, with a total rank of 716, mean rank of 2.36, mean Garrett's percentage position of 21.13, and mean Garrett's score of 68.40, ranked highest. The least constraint was little or no concern for clients' businesses by MFIs with a total clients' rank of 2,222, mean rank of 8.11, mean percentage position of 76.09, and mean score of 32.94. It is concluded that though a myriad of challenges face MFI-supported MSMEs, the MSMEs have preferences as to which challenge impact their businesses most. It is recommended that in tackling challenges that MFI-clients MSMEs face, it is important to use the preferences of the clients as a guide for better results.

CC-BY License

Keywords: Financial inclusion, Microcredit, Challenges, Mixed methods, Garrett's constraints ranking procedure

INTRODUCTION

Microfinance institutions (MFIs) play a critical role in addressing the challenges faced by micro-, small-, and medium-scale enterprises (MSMEs) (Adnan & Kumar, 2021; Agunbiade et al., 2020; Bajde et al., 2022; Minai et al., 2021). The support provided by MFIs has been essential for the growth and development of MSMEs, enabling them to contribute significantly to broader development goals. Globally, the contributions of the microfinance subsector to poverty reduction and national development have been widely recognized. These include increased profitability and diversification of client businesses, access to microloans not available through traditional banks, job creation, income generation, asset building, improved nutrition, housing, education, and health status, and empowerment of women (Ussif & Ertuğrul, 2020; Habte, 2016; Khatun et al., 2012; Roodman, 2012; QUAO, 2011; Armendariz & Morduch, 2010; Bateman, 2010; Yunus, 2007; Kyeyune, 2003). Despite these positive impacts, the sector faces a range of challenges that prevent it from fully realizing its potential.

The literature on the challenges of MFIs tends to focus more on the institutions themselves, with less attention to the issues faced by MSME clients. For instance, the World Bank Group (2016) examined the regulatory environment and risk analysis related to MFIs in Ghana, including microfinance companies, money lenders, savings and loans companies, rural and community banks, and financial non-governmental organizations. Antwi (2015) identified problems such as the diversion of funds, high lending rates, overtrading, and failure to comply with regulations as major factors contributing to the collapse of MFIs in Ghana. Odoom et al. (2019) found that high competition, low repayment rates, high costs of information technology, a lack of operator knowledge, and inadequate infrastructure are serious obstacles to the sustainability of MFIs in Ghana. Prathap et al. (2018) also explored the challenges of delivering microfinance in India, highlighting macro and micro-level problems. Macro-level challenges include misconceptions about microfinance, regulatory capital requirements, and difficulties expanding access to microloans for the poor. On a micro level, the study identified issues such as high transaction costs, collateral-based lending, and high default rates (Bateman, 2010; Agbenyo, 2014).

Micro-, small-, and medium-sized enterprises (MSMEs) play a vital role in global national development, particularly in sub-Saharan Africa, and are key to poverty reduction strategies. The United Nations (UN) has emphasized MSMEs in its Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs) as a means of alleviating global poverty. Specifically, SDG Goal 8 focuses on enhancing economic productivity through diversification, innovation, and formalization of MSMEs to create decent jobs and promote entrepreneurship (DESA UN, 2016). According to the International Trade Centre (2017), MSMEs indirectly

CC-BY License

contribute to nine of the seventeen SDGs, including Goals 1, 2, 4, 5, 8, 9, 10, 12, and 17.

Petersen and Kruss (2019) and Corps (2003) highlight that poor individuals often engage in microbusinesses to generate income, which helps meet their basic needs, including food, shelter, clothing, healthcare, and education. These businesses allow people to save, acquire assets, and contribute to their families, communities, and national economic development (Shaw, 2004; Halpern-Meekin, 2019; Villanger, 2015). Moreover, microenterprises empower individuals financially and facilitate upward economic mobility (Center for Urban Future, 2013).

MSMEs also significantly contribute to government revenue through taxation, supporting essential services such as healthcare, education, clean water, and sanitation (Villanger, 2016; Mahadevan et al., 2017). They generate employment for business owners and job seekers, particularly in urban areas, and provide low-cost goods and services for the poor (Lateh, 2017; Izzi, 2020). Ayanda and Laraba (2011) estimate that MSMEs account for over 75% of employment in developing countries. Their labour-intensive nature fosters job creation within local communities, helping to stimulate local economies (Kem, 2017). Productivity improvement in the MSME sector leads to business growth, competitive markets, and greater participation in the global marketplace.

MSMEs also enhance governments' efforts at economic growth by adding value to primary products and helping address income inequality through their widespread distribution (UNCTAD, 2001; Adams, 2001). In Ghana, policies, such as the Ghana Poverty Reduction Strategy (GPRS), the Ghana Shared Growth and Development Agenda (GSGDA), and the Agenda for Jobs and Prosperity, have identified MSMEs as key drivers of growth, wealth creation, and employment. Additionally, MSMEs nurture domestic entrepreneurship, innovation, technical skills, and managerial capabilities, supporting the broader private sector (Ampadu-Ameyaw et al., 2020).

This study seeks to address the gap in the literature by focusing on the challenges MSMEs face in accessing and utilizing microfinance products in Ghana's Upper West Region. While much research has focused on the difficulties faced by MFIs, there is a need for more attention to the challenges experienced by MSMEs, who are the clients of these institutions. By doing so, this study aims to shed light on the barriers that MSMEs face and provide insights that can contribute to more effective microfinance policies. The remainder of the article covers the contributions of MSMEs to national development, followed by methodology, results and discussions, and conclusions, with policy implications and recommendations.

METHODOLOGY

The study was conducted in the Upper West Region of Ghana, bordered by Burkina Faso, the Upper East, and Savannah Regions (Dickson & Benneh, 1990; Ghana Water Company, 2019). This region lies in the Guinea Savannah Zone, with a single maximum rainfall pattern contributing to its high poverty rate. Ghana Statistical Service (GSS, 2014b) reported the region's poverty incidence at 70.7%, the highest in

CC-BY License

Ghana, compared to the national average of 24.2%. By 2016/2017, the poverty rate had increased to 70.9%, making it the poorest region in Ghana (GSS, 2018).

The region is drained by two major rivers, the Black Volta and Kulkpawn, with limited dry season farming due to high seasonality (MOFA, n.d.). This affects agricultural activities, the region's primary economic driver, and poses challenges for microfinance institutions (MFIs) to meet the financial needs of people whose livelihoods depend on water resources. MSMEs in the region include on-farm activities (crop and animal farming) and off-farm economic activities like petty trading, artisanal work (seamstresses, blacksmiths, carpenters), food vending, and transport services. Despite the persistent poverty challenges, these diverse MSME activities form the backbone of the region's economy.

The study utilized a cross-sectional research design with a mixed-methods approach, combining quantitative and qualitative data collection (Zohrabi, 2013; Creswell, 2003). In an explanatory sequential manner, quantitative data ranked the challenges MSMEs face in accessing microcredit from MFIs, followed by qualitative exploration to deepen understanding of these challenges (Creswell, 2012). The qualitative approach involved gathering anecdotal data from MSMEs and institutional representatives to triangulate findings between the methods and within the qualitative approach, enhancing the study's validity (Creswell, 2009; Bryman, 2012). This approach is suitable for the study because how challenges in accessing and using micro-credits affect businesses are experiential and can be captured both qualitatively and quantitatively with relationships existing between the data types (qualitative and quantitative) captured for the study.

The target population of this study is MSMEs, defined as individual farming and non-farming entrepreneurs. MFIs organized clients into 45 social solidarity groups, with 33 farmer groups and 12 commerce groups. A multi-stage sampling process was employed. The first stage involved stratified random sampling of 14 groups (31% of the total), followed by cluster sampling across districts and communities, and finally, individual MSMEs were sampled. The sample size was determined using the formula by Anderson et al. (2011):

$$n_i = \frac{(Z_{\alpha/2})^2(\delta_i)^2}{E^2} \quad (1)$$

where, n_i = total sample size, $Z_{\alpha/2}$ = confidence level with a value of 1.96 (i.e., 95% confidence level), E =allowable margin of error chosen as GHS2.13 (which is a loan amount, used as a proxy for computing the population standard deviation used in the formula) and δ_i = total population standard deviation, with a value of 18 (that was determined by dividing the range of loans collected from clients by 4) (Anderson, et al., 2011: 326). This computation gives a sample size of 274 MSMEs investigated. Four districts were used in the study, where micro-credit activities are very active in the Region: Wa Municipality, Daffiam/Bussie/Issa District, Wa West District, Wa East District and a total of 32 communities, with the Nadowli-Kaleo District declining to participate in the study.

CC-BY License

Data were collected between September and December 2019 using semi-structured questionnaires. The questionnaire was uploaded onto the CAPI platform SurveyCTO, and data was entered via tablets to minimize errors. Ten enumerators were trained, and data collection included questionnaires, focus group discussions (FGDs), and key informant interviews (KIIs) for triangulation.

Garrett's ranking technique (Zalkuwi et al., 2015; Wongnaa et al., 2019) was used to rank challenges faced by MSMEs. Respondents assigned weights to each challenge from 1 (most pressing) to 10 (least pressing). The percentage position was calculated as follows:

$$Percentage\ Position = 100\ \frac{(R_{ij}-0.5)}{N_{ij}} \quad (2)$$

R_{ij} is the rank given by the jth respondent for the ith constraint, and N_{ij} is the number of constraints ranked. Garrett's scores were computed from percentage positions to determine the most pressing challenges. Analysis was conducted using SPSS, Microsoft Excel, and Stata. This analytical procedure is appropriate for the paper because the paper is meant to inform institutional and sectoral policies for MSME stakeholders as to what intervention(s) to implement and the manner, in the form of the sequencing of their interventions, in which they can proceed with their interventions.

Among the 274 respondents, ages ranged from 20 to 80, with the 31-36 age group (22.2%) most represented. Over 6% were above 60 years old. Females made up 83.2%, which is consistent with the literature highlighting microfinance as a tool for empowering women (Yunus & Jolis, 1999; Yunus & Weber, 2007). Dagaaba were the dominant ethnic group (70%), and Muslims were the largest religious group (50%), followed by Christians (46%) and followers of African Traditional Religion (ATR) at 4% (GSS, 2013: 29)(see Table 1).

Table 1: Age, Ethnicity and Religious Affiliation of Respondents

Age			**Sex**	**Ethnicity**			**Religion**		
Group/Range	**Freq.**	**%**		**Group**	**Freq.**	**%**	**Group**	**Freq.**	**%**
20 - 25	3	1.1	**Male**						
26 – 30	21	7.7	46	Waala	62	22.6			
31 - 35	40	14.7	**%**				Christianity	126	46
36 – 40	61	22.2	16.8						
41 – 45	49	17.9	**Female**	Dagaaba	192	70.1	Islam	137	50
46 – 50	36	13.1	228						
51 - 55	25	9.1	**%**						
56 – 60	23	8.4	83.2	Sissala	18	6.6			
61 – 65	12	4.4	**Total**				ATR	11	4
66+	4	1.4	274	Other	2	0.7			
Total	274	100	100	Total	274	100	Total	274	100

Source: Field Survey (2019)

CC-BY License

The religious affiliation portrayed in this survey implies that the idea of financial inclusion through microfinance, as a tool for affirmative action in development in the Upper West Region, transcends religious borders as even more Muslims have enrolled than Christians.

Tables 2 and 3 display the primary and secondary economic activities of microcredit clients. As shown in the Tables, Agricultural activities with 51.8 percent for the primary and 58.20 percent for the secondary economic activities and SME/petty trade operation with 39.1 percent for the primary and 30.0 percent for the secondary are the most dominant activities among the clients.

Table 2: Primary Economic Activity of Microcredit Recipients

Economic Activity	Frequency	Percent
Farming/livestock/fishing	142	51.8
Public/Civil Servant	2	0.7
SME/Petty Trade Operator	107	39.1
Technician/artisan	2	0.7
Construction	0	0
Dress/smock making	7	2.6
Wage Labor	0	0
Hairdressing	3	1.1
Other (Specify)	11	4.0
Total	274	100.0

Source: Field Survey (2019)

Table 3: Secondary Economic Activity of Microcredit Recipients

Secondary Economic Activity	Frequency	Percentage
Farming/livestock/fishing	64	58.20
Public/Civil Servant	1	0.90
SME/Petty Trade Operator	33	30.00
Technician/artisan	1	0.90
Construction	0	0.00
Dress/smock making	1	0.90
Wage Labor	0	0.00
Hairdressing	0	0.00
Other	10	9.09
Total	110	100

Source: Field Survey (2019)

RESULTS, ANAYSIS AND DISCUSSION

The results of microfinance product analysis and usage reveal several challenges for clients. Key constraints include no grace period for repayment, compulsory rollover into the next cycle, delayed disbursement, short repayment periods, collateral demands, insufficient loan amounts, low business returns, processing fee deductions at source, lack of concern for clients' businesses, and high interest rates.

CC-BY License

Table 4 shows that 274 respondents ranked these challenges. The total rank represents the absolute number of ranks assigned by respondents for each challenge, while the mean rank reflects the average rank for each constraint. The mean Garrett's percentage position shows the average percentage position of each challenge, calculated from the ranks given by respondents. The mean Garrett's scores, derived from the Garrett's ranked scores table, determine the ranking of each challenge.

An inverse relationship exists between the total rank, mean rank, mean Garrett's percentage position, and the mean Garrett's score. For example, "Delayed disbursement of loans," the top-ranked challenge, has a mean Garrett's percentage position of 21.13 (the lowest) and a mean Garrett's score of 68.40 (the highest). In contrast, "Little or no concern for my business," the lowest-ranked challenge, has a mean Garrett's percentage position of 76.09 (the highest) and a mean Garrett's score of 32.94 (the lowest).

This inverse relationship highlights that respondents consider challenges with lower percentage positions and higher Garrett's scores more pressing. Hence, delayed disbursement, compulsory rollover, and high interest rates are among the most significant issues MSMEs face in accessing microfinance products.

From Table 4, the constraint with the highest Garrett's rank is delay in disbursement. It has an absolute total rank of 716, mean rank of 2.36, mean Garrett's percentage position of 21.13, and mean Garrett's score of 68.40. Delayed disbursement of microloans to clients is crucial. This is because a high percentage (51.80 and 58.20 percent as shown in respondents' backgrounds) of the clients invested their microloans in agriculture as primary and secondary occupations, respectively.

The nature of agriculture in the Upper West Region, like elsewhere in Ghana, is rain-fed and highly seasonal. As shown in the literature, the timely purchase of farm inputs, such as seeds/seedlings, farm implements, and fertilizer/manure, among others, is vital for successful investments in agriculture. Thus, delays in loan disbursements negatively affect returns on investments in Agriculture. A female in Owlo Community, Daffiama-Bussie-Issa District, lamented in the statement that follows:

> *The loans are very good and helpful and **West 3** is doing very well. However, when there are delays in disbursement of the loans, as it happened to some of us last year, we find ourselves in real challenges. You usually experience lower yields that can affect your profit margins and even your comfortable repayment ability* (A Focus Group Discussant at Owlo, September 20, 2019).

CC-BY License

Table 4: Garrett's Constraints Scores and Ranks for MSMEs

S/N	Credit challenges of client	No. of Respondents	Total Rank by Respondents	Mean Rank	Mean Garrett's % Position	Mean Garrett's score	Garrett's rank
1	No grace period for repayment	274	1925	7.03	65.26	41.37	8th
2	Compulsory rollover of cycle	274	2176	7.94	74.42	34.96	9th
3	Delay in disbursement	274	716	2.36	21.13	68.40	1st
4	Short repayment period	274	1217	4.44	39.42	56.25	4th
5	Demand for collateral	274	1403	5.12	46.20	52.07	5th
6	Inadequate amount of loan	274	955	3.39	29.85	62.92	2nd
7	Low returns on business	274	1743	6.36	58.61	45.48	7th
8	Demand/deduction of processing fees at source	274	1540	5.62	51.20	49.33	6th
9	Little/no concern for my business	274	2222	8.11	76.09	32.94	10th
10	High interest rates	274	1173	4.28	37.81	56.82	3rd

Source: Field Survey (2019)

A main institutional informant, confirming delays in disbursement, outlined the causes as late requests for loans by clients, savings factor (clients not meeting the minimum savings of 20% of expected loans), and bureaucracy (administrative procedures that the loan applications go through) before approval and subsequent disbursement. International Finance Corporation (2020), World Bank (2021), ILO (2021) and UNCDF (2022) argued that delayed disbursement of microcredit funds poses business operations and psychological and structural institutional challenges to MSMEs and their entrepreneurs.

The second highest *Garrett's* ranked constraint is the inadequate amount of loans disbursed to clients. This constraint has an absolute total rank of 955, a mean rank of 3.39, a mean *Garrett's* percentage position of 29.85, and a mean *Garrett's* score of 62.92. The inadequate loan amount is a pointer to the fact that microloans are for

the poor. A female petty trader in the Sonzel group in the Wa West District and a male driver, in separate FGD sessions, equivocated as follows:

> *I am not sure why **West 2** keeps slashing down the amount whenever I request for it. I thought I could pay any amount at all, but they keep telling me it is better I take the loan and increase the amount gradually. […]. But sometimes you can just feel it that you need more of the loan to expand your business and do other things* (FGD session at Dorimon, September, 2019).
>
> *The loan is always not enough […]. When I request GHS 2000.00, they will give me just GHS 1000.00. I suggest that they try and give us the amount we request to enable us do the business at the level we want to do it […]* (A Driver at an FGD session at Daffiama, September, 2019).

Evidence from literature shows that even where interest rates increase, demand for microloans still rises as MSME clients are sensitive to loan access and amounts rather than to interest rates. At the same time, the supply has continuously fallen short of the demand (Agbenyo and Gyimah, 2014). Still, Thirlwall (2003) and Todaro and Smith (2015) have found that the poor maintain their expenditure on satisfying their basic requirements, resulting in a higher percentage of their income being spent on these essentials. The high demand for microloans shows that the profits from present loans are insufficient to meet their needs. Saxena (2015) and Saifi (2021) have cited inadequate and untimely inflow of credit as one of the very critical challenges that bedevil MSMEs in India leading to missed opportunities, poor performance and low repayments.

The constraint that came third per Garrett's rank is high-interest rates. This constraint has an absolute total rank of 1173, mean rank of 4.28, mean *Garrett's* percentage position of 37.81, and mean *Garrett's* score of 56.82 (see Table 2). One difference between social missionaries and commercialisation advocates regarding financial inclusion through microfinance is interest rates. Social missionaries have always made the justification for reduced and subsidized interest rates, whereas commercialisation advocates argue that market interest rates are superior in pricing financial capital to aid the poor to escape poverty (see Agbenyo and Gyimah, 2014; Bateman, 2010; Dichter, 2007c; Yunus and Jolis, 2003). The liberals have established the new wave of microfinance based on this position of commercialization advocates, particularly after the late 1990s into the early 2000s (see Bateman, 2010). However, over two decades into its implementation, microfinance clients are consistent in the fact that high-interest rates hurt their businesses. *Garrett's* constraints ranking technique which ranks high-interest rates as the third-highest challenge facing their businesses out of the ten constraints outlined, makes liberalised and high-interest rates a crucial issue for consideration by policymakers. In line with this finding, Agbenyo and Gyimah (2014) discovered that MSME clients are concerned about commercial and high-interest rates. The authors found that the unresponsiveness of microcredit demand to price changes is due to necessity rather than the poor being unconcerned about the cost of capital. This outcome is evident in a client's statement below:

CC-BY License

> *[…] we continue to demand for the loans regardless of changes in interest rates. This is because we need the loans for our businesses in the face of no better alternatives. However, it would be more beneficial if they took a second look at the interest rates; our businesses would do better. Every week, when we make our repayments, we pay our interest as well and we feel the impact on our businesses* (FGD, Kpongu Community, September, 2019).

In line with the above, Gichuki et al. (2014) also found that the high cost of credit repayments has very debilitating effects on the performance of MSMEs and stifles their growth.

Short repayment *[sic]* periods are the fourth challenge for SMEs. The absolute total rank of the short repayment period stands at 1217, with a mean rank of 4.44, mean *Garrett's* percentage position of 39.42, and mean *Garrett's* score of 56.25 (see Table 2). Evidence from the literature shows that time (longevity of access to credit in the past, also designated as entrepreneurial experience) is a significant factor in determining the positive impact of microloans on enterprise performance (Habte, 2016; Kondo and Orbeta, 2008). This finding implies that the more the cycle of microloans an entrepreneur has accessed, the better their enterprises' performance and vice versa. This outcome can also mean that the shorter the cycle (repayment period), the more a client's number of past accesses to microloans. However, as a constraint, short repayment periods are inimical to significant and positive impacts/performance. It can obstruct the time needed to accumulate sufficient profit to pay interest and the principal amount. It can, therefore, be inferred that short repayment periods limit the performance of MSMEs. The following are experiences shared by clients during FGDs:

> *The loans are reasonable; however, the repayment periods require a longer periods than often allowed by the creditors. The weekly and sometimes bi-weekly repayment periods have mounted pressure on us. Sometimes, you are not able to make the necessary profit before you start repaying of both the profit and principal. We prefer it that way because it is better than not having access at all (FGD at Waale Sombo, September, 2019).*
>
> *For me, the repayment time is always too short. […]. Sometimes, there is not even enough time for you to mobilise money in readiness for the payment […]. I think they should try and do something about it by extending the repayment dates a little bit for us […]. This will give us the time to mobilise funds for the repayment* (A Driver at an FGD in Daffiama, September, 2019).

Demand for collateral is not a fundamental constraint to MSMEs attempting to access and use microloans. Traditionally, microfinance as a development tool was meant to circumvent the challenge collateral poses to MSMEs in their bid to access loans from commercial banks. As depicted in Table 4, demand for collateral, as a challenge, has a total rank of 1403, a mean respondents' rank of 5.12, a mean

CC-BY License

Garrett's percentage position of 46.20, and the mean *Garrett's* score of 52.07 and came fifth from *Garrett's* ranking. A client unambiguously said:

> *For* ***West 3****, demand for collateral is fine. Once you are into groups,* ***West 3*** *sees you as mutual guarantors. You can, therefore, access the loans. The problem arises when one member defaults and* ***West 3*** *holds the whole group accountable. Sometimes, you have to contribute to pay for that person. So, […] we have decided to develop a collateral system which we manage ourselves to ensure the security of our loans, relationships with* ***West 3*** *and our businesses. […] some people qualify for individual loans […], where all the rules governing individual collateral apply to them* (*sic*) (FGD at Dabo, September 2019).

Interviews with **West 3** key informants also corroborate this strategy of mixing various collateral securities in administering microloans for maximum protection and safety of their loans and safeguarding clients' interest. One of them disclosed the two strategies they use – collateral and multiplier strategies. The multiplier strategy is for those without collateral but who need/want the loan. Here, clients' savings are double on condition that they will not withdraw part of their savings until their loans are fully amortized. There is also the provision of ownership of shares. However, some clients only want to save, so **WEST 3** brought in the option of Susu to allow clients to save. There is also the deceased strategy, where double the amount of savings is given to the next of kin. These practices were to help overcome the collateral requirement as some people are unable to supply any collateral, others give collateral worth less than the loan amount asked, and others struggle to obtain guarantors. The voices that follow are illustrative:

> *[…]. In dealing with the microfinance, we have the co-guarantee system […]. Under this system, we don't collect any collateral […]. But when we are dealing with other clients, depending on the loan amount, we take collateral […]; and for some people, especially some market women, they are given loans without collateral […]* (Loans Recovery Officer at the Headquarters in a KII, December 2019).
>
> *We identify the needs of our members and tailor our services […]; for example, some want loans but don't have collaterals, and every bank wants a collateral […]. So, we decided to take some calculated risk to give out loans where clients save a certain amount and twice that amount is given to them as loans […]* (*sic*) (**West 3** Operations Manager in a KII, December 2019).

The voices above are clear that ensuring loan security has become a shared responsibility between **West 3** and its clients. From the quotes, **West 3** relies on a range of diversified collateral securities at the institutional and group levels to safeguard its loans. Examples of collateral securities are group guarantees (see Dichter, 2007c), house, land, car/motor, cash deposits, pre-savings, savings, cooking utensils, dawadawa, livestock, personal effects such as clothes and other properties.

Even though some authors (Bateman, 2010; Armendariz and Morduch, 2010) have argued that MFIs have taken advantage of the social solidarity groups to protect

CC-BY License

their investments, these can be seen as collateral substitutes (see Ledgerwood, 1999). Social solidarity enables the continuous advancement of microloans to risky groups without jeopardizing the investments of the MFIs. Gachuki et al. (2021) have argued that the demand for collateral securities has cut some of the MSMEs from accessing credit to grow their businesses.

Processing fees are deductions from loans or fees demanded from clients to enable MFIs to meet the costs of their secretarial services, including maintenance of loan files, electronic or paper-based. Clients consider the demand for and/or deduction of processing fees at source challenging their operations. With clients' total rank of 1540, clients' mean rank of 5.62, *Garrett's* percentage position of 51.20, and *Garrett's* constraint score of 49.33, demand for and/or deduction from source of processing fees has *Garrett's* rank of 6 (see Table 4). Some Clients held that at the start of their business relationship with the MFIs, they thought their MFIs could have absorbed processing and maintenance fees. Most of them contended that relative to the size of their loans, processing fees reduce the profit of their enterprises, however small. Ledgerwood (1999) argues that fees and other service charges increase the financial cost for borrowers while increasing the revenue of the lending MFI. Gichuki et al. (2014) also identified high processing fees as a major factor to deal with if MSMEs are to graduate along the growth ladder.

Returns on business are the gains or profits a micro-entrepreneur makes on investing their microloan in their business. Returns on investments in micro-businesses are the fulcrums on which a sustainable microfinance industry thrives. Even under the Grameen model of microfinance which advocated for heavy subsidization from the start, the expected end state of a microfinance business enterprise is a graduated self-sustained one that can access loans from the commercial banking sector. Therefore, low returns on businesses have appeared as no surprise in this study. It appeared as the 7th out of the ten constraints on *Garrett's* rank scale, with a mean *Garrett's* score of 45.48, mean *Garrett's* percentage position of 58.61, mean clients' ranking of 6.36, and total clients' ranking of 1743 (see Table 4).

In a study that estimated the treatment effects of microloans on enterprise profits, even though all three treatment effects – average treatment effect of the treated (ATT), average treatment effect of the untreated (ATU), and average total treatment effect (ATE) are positive, in absolute terms, some enterprises made losses (negative annual profits/returns) (see Agbenyo, 2020). What has emerged from this impact evaluation study is that those enterprises that have made positive annual returns outnumber those that have made negative returns, and most clients with positive annual returns have higher mean annual returns than those with negative annual returns. Clients with negative annual returns numbered 73, constituting 9.10 percent, and the range of the negative annual returns was GHS -6500.00 minus GHS – 10.00, equal to GHS -6490.00. Nine clients, constituting 1.12 percent merely broke even. Respondents with positive annual returns total 722 and a range of 322,658 (i.e. 322,660 minus 2). In addition to those that made negative returns on the micro-investments, one can also identify enterprises with positive but very low mean

CC-BY License

annual profits – as low as between GHS 2.00 and GHS 3,000.00, giving an average daily profit of GHS 8.93, an amount that is less than Ghana's daily minimum wage of GHS 9.68 for the year 2017 and also less than the global poverty line of $2.00 a day (i.e., GHS11.64 at the time of the study) (1USD: 5.70GHS in December 2019). Looking at the total number of clients that made negative annual returns and very low mean annual returns on their micro-investments as against those that made significant positive mean annual returns, it is understandable that the problem of low returns on investment appears seventh on the ten-scale *Garrett's* score rank.

The grace period is the period between access to microloan and the start of the loan and interest payment. Clients expressed concern that MFIs must give them more grace period before paying the principal and interest. They gave the challenge of no grace period a total rank of 1925, which translates into a mean clients' rank of 7.03, Garrett's mean percentage position of 65.26, and *Garrett's* mean score of 41.37, making it the 8th-ranked constraint.

The argument behind the grace period for repayments is that when investments are made, a time lag is often required for them to start generating profits. When a micro-lender begins collecting repayments immediately after the micro-entrepreneur invests the loans, there will be too short a gestation period for the enterprise to expand. This situation will amount to the enterprise just working for the micro-lender. The agency problem and moral hazard considerations, on the other hand, are in favour of micro-lenders (see Armendariz and Morduch, 2010; Ledgerwood, 1999). The MFIs complained that most micro-entrepreneurs make a profit alright but keep it a secret and sometimes give direct opposite information on their performance state. This situation has forced micro-lenders to impose a fixed and standardized payment schedule on all clients, irrespective of their circumstances. The MFI indicated that other approaches to solving this problem, such as devising processes to have accurate information before deciding on what to do, are expensive and may erode the gains made in the business. They further argue that the gestation period for the generation of returns does not apply to all microenterprises. They cited farmers whom they acknowledged needed a distinct grace period which they said **West 3** provides. These counterarguments from **West 3** seem valid as they are harmonious with its rank on *Garrett's* scale (8th position).

A compulsory rollover occurs when a client is assessed and deemed automatically interested in continuing with another loan cycle after successfully finishing one. However, some clients may want to opt out or even pause operations for a while. This problem has been assigned a total rank of 2,176 by clients, a mean rank of 7.94 by clients, *Garrett's* mean percentage position of 74.42, and *Garrett's* mean score of 34.96, resulting in its rank as 9. The challenge with this constraint is that it reduces the client's commitment level in engaging the microloan productively. This constraint can have implications for the management of the business, profits generation, and loan repayments. **West 4** is, however, of the view that clients have the freedom to exit once they do not have any obligation to do so in the form of outstanding loans and/or keeping any items of theirs.

CC-BY License

Little or No Concern for Clients' Businesses

Traditionally, clients' business development has been a social intermediation function, which has generated a debate under the current wave of MFIs. The social missionaries believed that clients' business development should remain a concern for MFIs, and should also include monitoring businesses and taking on issues of capacity development of micro entrepreneurs in production, packaging, financial literacy, and finding a market for the clients' products. However, commercialization advocates believe that these nonfinancial intermediation functions come with costs that MFIs cannot bear; neither can the SMEs themselves contain these costs, at least at the initial stages of development of their businesses (see Armendariz and Morduch, 2010; Bateman, 2010; Ledgerwood, 1999). In this survey, little or no MFIs' concern for clients' business development has *Garrett's* rank of 10; the last among the constraints presented, with a total clients' rank of 2222, mean clients' rank of 8.11, *Garrett's* mean percentage position of 76.09 and *Garrett's* mean score of 32.94. In providing reasons for this finding, clients believed that MFIs can still provide necessary support beyond just ensuring the flow of capital to aid in their capacity building in connecting them to raw material suppliers, marketing areas, packaging, and access to new markets.

A follow-up FGD reveals that clients were aware of the cost implications of these services they were requesting. An overwhelming majority of discussants was prepared to contribute to offset the cost of these services. A male discussant was emphatic thus:

> *We need these business development services but it all depends. If the cost is not too high, we are willing to participate and pay once they will help our businesses, especially the farms, to do better and earn higher profits* (Dabo-Siira Community, October 2019).

A female discussant also equivocated in the ensuing statement;

> *We have heard of these business development services in the past and some of us even took part in a number of them. […]. However, these days, one really (sic) hears of or gets to participate in these training or capacity-building sessions. Even though we want to contribute if only the amount is not too high for us, I believe that **West 4** and the other MFIs can help us organise the trainers and bear part of the cost […]* (Waale-Sombo Community, October 2019).

One other critical issue that emerged was clients' position that MFIs could provide them with an intermediation role by connecting them with service providers, through their groups as a customer base, and even bearing some of the associated costs since it is only when their businesses flourish that the MFIs can also become sustainable.

An institutional interview with a **West 2** key informant confirms the low rank of no concern for clients' businesses. The interviewee emphasised the importance of monitoring **West 2** and other MFIs' operations. He states:

CC-BY License

> *[…] **West 2** monitors two things. […] whether loans are being used for the intended purpose; and a look at the health of clients' businesses - their challenges […]. The staff is to spend at least 15 minutes in a client's shop or farm and to observe their customer care, book and records keeping, benefits of taking the loans, use of mobile money banking and the environment* (Loans Recovery Officer at the Headquarters in a KII, December 2019).

Ineffective monitoring and feedback mechanisms for MSMEs also came up strongly in Saxena (2015), which hurts small businesses, leading to their poor performance.

CONCLUSION AND POLICY IMPLICATIONS

The challenges MSMEs face in accessing and utilizing microloans are critical for stakeholders to address for improved financial inclusion and poverty reduction. These constraints hinder progress in the microfinance subsector, yet they are manageable. MFIs should prioritize addressing these challenges in the order ranked by clients, as these rankings reflect the weight and significance clients assign to each issue. For example, over half (51.8%) of clients are engaged in agriculture, which is highly seasonal. Thus, MFIs need to adjust their timeframes, administrative procedures, and financial management to align with the business cycles of their clients.

To address delayed disbursement, MFIs should ensure timely disbursement of funds to allow clients to maximize the potential benefits from the loans. This can be done by studying the cycle of the businesses they finance and identifying the stages and the associated timings for the release of funds that can make the funds valuable and useable by the client. Additionally, MFIs should consider increasing loan amounts based on the absorptive capacity of clients' businesses. This must be done carefully to ensure both clients and MFIs benefit from the additional funds. This can be achieved during creditworthiness assessment of the clients' businesses using such indicators as profit and growth in outputs, sales, productivity and, to a lesser extent, increased use of inputs such as labour, materials and capital/assets, among others.

Regarding high interest rates, a transparent policy should be developed to explain how rates are determined, especially in the current competitive neoliberal environment. Other pressing issues, such as short repayment periods, demand for collateral, and deductions of processing fees, must be addressed through transparent communication and client education. MFIs must ensure clients fully understand these policies and their implications.

The findings of this study provide valuable insights for MFIs in planning, management, and policy decision-making related to financial inclusion. Key considerations include the timing of fund disbursements, greater participation, and educating entrepreneurs. This study contributes to the existing literature by applying Garrett's constraints ranking analysis and clients' experiences, making it the first of its kind in Ghana. Previous studies have used this methodology for other development challenges, including financial inclusion, but this study extends its application to the constraints MSMEs face in accessing microfinance services.

CC-BY License

REFERENCES

Adams R. (2001), "*Nonfarm Income, Inequality, and Poverty in Rural Egypt and Jordan",* Policy Research Working Paper 2572, Washington, D.C., World Bank.

Adnan, S. A., & Kumar, P. (2021). Role of microfinance in economic development. *Adhyayan: A Journal of Management Sciences*, *11*(2), 22-30.

Agbenyo, F. (2020*), "Impact of microfinance on SMEs in an era of neoliberalism: evidence from Upper West Region, Ghana",* PhD Thesis, University for Development Studies, Ghana.

Agbenyo, F. (2014), "The impact of microfinance on the performance of small–scale enterprises: a comparison of SINAPI ABA TRUDT and Maata-N-Tudu Associations in Wa Municipality, Ghana"*, Ghana Journal of Development Studies*, Vol. 11 No. 2, pp. 1-13.

Agbenyo, F. and Gyimah, C. (2014), "An analysis of small-scale enterprises' demand for micro credit from micro-finance institutions in Ghana", *Asian Academic Research Journal of Social Science and Humanities,* Vol. 1 No. 27, pp. 262-281.

Agunbiade, A. K., Afolabi, O. M., Olaiya, A. L., & Omotayo, G. O. (2020). Assessing Sustainability of Small-Scale Business Opportunities in Nigeria: Prospect and Challenges. *KIU Journal of Humanities*, *5*(1), 57-66.

Ampadu-Ameyaw, R., Jumpah, E. T., Owusu-Arthur, J., Boadu, P., and Fatunbi, O. A. (2020), "A review of youth employment initiatives in Ghana: policy perspective"*,* FARA Research Report, Vol. 5 No. 5, pp. 41.

Armendariz, B. and Morduch, J. (2010), The economics of microfinance (2nd ed.), United States of America, Massachusetts Institute of Technology.

Anderson, D.R., Sweeney, D.J. and Williams, T. A. (2011), *Statistics for Business and Economics* (11th ed.), South-Western Cengage Learning.

Antwi, O. B. (2015), "*The failure of microfinance in Ghana: a case study of Noble Dream Microfinance Limited",* a master thesis, Kwame Nkrumah University of Science and Technology, Ghana.

Ayanda, A. M. and Laraba, A. S. (2011), "Small and medium scale enterprises as a survival strategy for employment generation in Nigeria", *Journal of Sustainable Development,* Vol. 4 No. 1, pp. 200 - 206.

Bajde, D., Chelekis, J., & van Dalen, A. (2022). The megamarketing of microfinance: Developing and maintaining an industry aura of virtue. *International Journal of Research in Marketing*, *39*(1), 134-155

Bateman, M. (2010), *Why doesn't microfinance work? the destructive rise of local neoliberalism*. New York, Zed Books.

Bryman, A. (2012), *Social research methods* (4th ed.). Oxford, Oxford University Press.

Constitute project (2013), *Ghana's Constitution of 1992 with amendments through 1996.* Available@ Constituteproject.org. Accessed 12/04/2021.

Corps, P. (2003), *An NGO training guide for Peace corps volunteers*, published by the Peace Corps.

Creswell, J.W. (2012), *Educational Research: planning, conducting and evaluating qualitative and quantitative research,* New York, Pearson.

Creswell, J.W. (2009), *Research Design: a quantitative, qualitative and mixed method approaches,* London, Sage Publications.

Creswell, J.W. (2003), *Research Design: a quantitative, qualitative and mixed method approaches,* London, Sage Publications.

CC-BY License

DESA, U. N. (2016), Transforming our world: the 2030 agenda for sustainable development, The International Trade Centre.

Dichter, T. (2007c), Can microcredit make an already slippery slope more slippery? Some lessons from the social meaning of debt, In Dichter, T. and Harper, M. (Eds.), *What is wrong with microfinance?* Warwickshire, Practical Action Publishing.

Dickson, K.B. and Benneh, G. (1990), *A new geography of Ghana,* London, Longman Group UK Ltd.

Gichuki, W., Njeru, A. & Tirimba, O. I. (2014). Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in Kangemi Harambee Market in Nairobi City County. International Journal of Scientific and Research Publications, Volume 4, Issue 12. Available at https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=89f2593a5042bed3e951b913e12982da81d43e5a. Accessed: 28/10/2024.

Ghana Statistical Service [GSS] (2018), *Ghana living standards survey round seven [GLSS 7]: poverty trends in Ghana (2005 - 2017),* Accra, GSS.

Ghana Statistical Service [GSS] (2014b), *Ghana living standards survey round six [GLSS 6]: poverty profile in Ghana 2005 - 2013),* Accra, GSS.

Ghana Statistical Service [GSS] (2013). *2010 population and housing census: regional analytical report,* Upper West Region. Accra; GSS.

Ghana Water Company Limited (2019), *Upper West Region.* Accra, GWCL.

Habte, A.T. (2016), "*The impact of microfinance on household livelihoods: evidence from Rural Eritrea",* PhD thesis, University of the Western Cape, South Africa.

Halpern-Meekin, S. (2019), Social *poverty: low-income parents and the struggle for family and community ties,* NYU Press.

International Finance Corporation. (2020). *Challenges in microfinance disbursement for MSMEs*. Retrieved from https://www.ifc.org/challenges_microfinance_disbursement. Accessed: 28/10/2024.

International Labour Organization. (2021). *Financial barriers and institutional delays in microfinance*. Retrieved from https://www.ilo.org/financial_barriers_microfinance

International Trade Centre (2017), *Micro- small- and medium-scale Enterprises* [MSME], Available@ https://www.intracen.org/MSME-Day-2017/SDGs/. Accessed: 23/02/2.

Izzi, V. (2020), "Promoting decent employment for African youth as a peacebuilding strategy", *INCLUDE Knowledge Platform*. Available from https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_744700.pdf. Accessed: October 20, 2021.

Kem, K. F. (2017), "Retail Big-Box development and small business strategy at the local level". Doctoral study, Walden University.

Khatun, A., Islam, M.A. and Majunder, S. (2012), "Impact of micro-credit programmes on poverty alleviation in Bangladesh", *Bangladesh Journal of Agriculture Economics. Vol.* XXXV No. 1&2, pp. 115-130.

CC-BY License

Kondo, T., Orbeta, A., Dingcong, C. and Infantado, C. (2008), *Impact of microfinance on rural households in the Philippines,* Philippines Institute for Development Studies. Discussion paper series No. 2008-05.

Kyeyune, C. (2003), "T*he contribution of microfinance institutions (MFIs) to the economic activities of the youth and women in Luwero District: a case of FINCA Uganda",* a master dissertation, Makerere University.

Lateh, M., Hussain, M. D., and Halim, M. S. A. (2017), "Micro enterprise development and income sustainability for poverty reduction: a literature investigation", *International Journal of Business and Technopreneurship*, Vol. *7* No. 1), pp. 23-38.

Ledgerwood, J. (1999), "*Sustainable banking with the poor: an institutional and financial perspective, microfinance handbook",* Washington, DC. World Bank.

Mahadevan, R., Amir, H., and Nugroho, A. (2017), "How pro-poor and income equitable are tourism taxation policies in a developing country? Evidence from a computable general equilibrium model". *Journal of Travel Research*, Vol. *56* No. 3, pp. 334 -346.

Minai, M. S., Ibrahim, Y. B., Mohammad, H. B., & Yusuf, S. N. S. (2021). Achieving financial performance and social performance of microfinance institutions: Risk of mission drift. *Academy of Strategic Management Journal*, *20*, 1-12.

Ministry of Food and Agriculture [MOFA] (n.d.), *Upper West Region: General information,* Wa; MOFA; Available at: Upper West Region http://mofa.gov.gh/site/?page_id=656. Accessed: 14/12/2018.

Odoom, D, Oppong, K., Fosu, O. K., Ankomah, K. and Amofa, M.B. (2019), "Investigating the challenges faced by microfinance institutions in Ghana: evidence from Takoradi", *Research on Humanities and Social Sciences,* Vol. 9 No. 10, pp. 90 -104.

Petersen, I. and Kruss, G. (2019), "Promoting alignment between innovation policy and inclusive development in South Africa", *Development Southern Africa*, Vol. 36 No. 3, pp. 351-375.

Prathap B. N., Subrahmanya, K. C. and Harisha, B. S. (2018), *"Microfinance* delivery: challenges and remedies", *International Journal of Management Studies, D*OI:10.18843/ijms/ v5i3(9)/17.

Quao, K. H. (2011), "*The effects of microfinance on poverty reduction in the Sefwi Wiawso District",* a master thesis, Kwame Nkrumah University of Science and Technology, Ghana.

Roodman, D. (2012), *Due diligence: an impertinent inquiry into microfinance,* Center for Global Development.

Saxena, A. (2015). Microfinance For MSMES: Prospects, Challenges & Implication. In Indian Technical and Economic Corporation: *Make in India for Accelerating MSME Growth and Innovations*. International Conference 10 - 11 January 2015; India.

Saifi, M. A. (2021). Challenges Facing Micro, Small and Medium-Sized Enterprise (MSMEs) When Accessing Funds from Financial Institutions in the West Bank. *Indian Journal of Economics and Business* Vol. 20 No. 4. http://www.ashwinanokha.com/IJEB.php. Accessed: 28/10/2024.

CC-BY License

Shaw, J. (2004), Rural Micro-enterprise occupation and poverty reduction in microfinance programs: evidence from Sri-Lanka, *World Development,* Vol. 32(7), pp. 1247–64.

Thirlwall, A. P. (2003), *Growth and development: with special attention to developing countries* (7th ed.), Palgrave, London.

Todaro, M. P. and Smith, S.C. (2015), *Economic development,* New York; Pearson.

United Nations Capital Development Fund. (2022). *Improving microcredit disbursement for financial inclusion*. Retrieved from https://www.uncdf.org/microcredit_disbursement_improvements

United Nations Conference on Trade and Development [UNCTAD] (2001), *Improving the competitiveness of SMES in developing countries: the role of finance to enhance enterprise development,* United Nations, Geneva.

Ussif, R. & Ertuğrul*, M. (2020), "Role of microfinance institutions in poverty reductionemployment creation and income generating activities in Ghana", North American Academic Research, Vol.* 3 No. 03, pp. 01-30.

Villanger, E. (2016), "Back in business: private sector development for poverty reduction in Norwegian aid", In *Routledge Forum for Development Studies,* Vol. 43 No. 2, pp. 333-362).

Villanger, E. (2015), "Entrepreneurial abilities and barriers to microfinance growth: a case study in Nepal", *The Journal of Entrepreneurship, Vol.* 24 No. 2, pp. 115 - 147.

Wongnaa, C.A., Akuriba, M.A., Amissah E., Danquah, K.S. and Ofosu. D. A. (2019), 'Profitability and constraints to urban exotic vegetable production systems in the Kumasi metropolis of Ghana: a recipe for job creation', *Journal of Global Entrepreneurship Research.* https://doi.org/10.1186/s40497-019-0158-2.

World Bank Group (2016). *Ghana's microfinance sector: challenges, risks and recommendations,* World Bank Group, Finance and Markets.

Yunus, M. and Jolis, A. (2003), *Banker to the Poor: micro-lending and the battle against World poverty.* Public Affairs, New York.

Yunus, M. and Jolis, A. (1999*), Banker to the Poor: the Story of the Grameen Bank*, Aurum Press, London.

Yunus, M. and Weber, K. (2007), *Creating a world without poverty: social business and the future of capitalism,* Public Affairs Persus Group, New York.

Zalkuwi1, J., Singh, R., Bhattarai, M., Singh, O.P., and Rao, D. (2015), Analysis of constraints influencing sorghum farmers using Garrett's ranking technique: a comparative study of India and Nigeria', *International Journal of scientific research and management,* Vol. 3 No. 3, pp. 2435 - 2440.

Zohrabi, M. (2013), "Mixed method research: instruments, validity, reliability and reporting findings", *Theory and Practice in Language Studies,* Vol. 3 No. 3, pp. 254 - 262.

CC-BY License