**Ashesi University College**

# The Effect of Microfinance on the Growth of Female-Owned Businesses in Ghana

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**Ashesi University College**

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By

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**Declaration**

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: …………………………………………..

Candidate's Name: Mary Awortwi-Tandoh

Date: April 15, 2016

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

Supervisor's Signature: …………………………………………..

Supervisor's Name: Mr Anthony Essel-Anderson

Date: April 15, 2016

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# ABSTRACT

The study explored the effect of Microfinance on the growth of female-owned businesses by focusing on how the financial and non-financial services offered by Microfinance Institutions (MFIs) affect the increase in assets, employees and revenues. It also explored factors that undermine the effect of these services on the growth of female-owned businesses.

The research is a qualitative and uses purposive sampling technique. The findings of the research were based on the responses of thirty female clients of both Asa Savings and Loans, Odorkor Branch and Progressive Savings and Loans, Accra Central Branch. Branch managers of the Microfinance companies earlier stated were also administered questionnaires. Data gathered was analyzed using descriptive analysis and cross tabulation.

The research revealed that MFIs have had a positive effect on the growth of female-owned businesses although some factors undermined this effect. These factors include the economic situation, the size of loans and the attitudes of the business owners. Furthermore the research showed that the advisory services offered were not being utilized by most of the respondents. However, the few who used these services observed a significant increase in management and control of their businesses which contributed to growth.

Based on the findings, it was concluded that Microfinance Institutions have had a positive effect on female-owned businesses. Some recommendations provided by the researcher include a more rigorous advisory unit for MFIs, government and international grants to help increase loan sizes and also increase in market research to provide services that suit the needs of female clients.

Keywords: Microfinance, Female-owned businesses, growth, effect

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# CHAPTER ONE: INTRODUCTION

## Background

Microfinance involves providing financial services through a variety of products including loans, savings, advisory services and other financial services. The main target of Microfinance Institutions (MFIs) is low-income clients and the poor, most of which are females (Ministry of Finance, 2015). The concept of microfinance started in Bangladesh by Muhammad Yunus an economist. He started Grameen Bank more than 30 years ago with providing credit to women in Chittagong, Bangladesh. His main aim was to reduce poverty by providing small loans to the rural poor (Yunus 1999). Professor Yunus saw a positive impact on the business operations and the quality of life of the women and this fostered the spread of the concept worldwide.

In Ghana, there has always been the culture of people saving or taking loans from others individuals or groups in order to start or foster growth in their businesses (Asiama & Osei, 2007). The history of Microfinance in Africa reveals that the first credit union was formed in Northern Ghana by Canadian Catholic missionaries in 1995. However, the term ‘Susu’ came from Nigeria and became popular in Ghana in the early twentieth century. ‘Susu’ is one of the popular MFI products that encourages savings (Asiama & Osei, 2007).

In November 2015, Ghana had a total of 468 licensed Microfinance Institutions (MFIs) across the country delivering microfinance services to the public (Bank of Ghana, 2015). Considering the fact that the number exceeds the number of Banks in the country, which is 34 licensed banks including representative offices (Bank of Ghana, 2015), there is great likelihood that it will have a great effect on businesses, particularly small and medium-sized enterprises, and the development of the economy of Ghana as a whole.

Abor and Biekpe (2006) in their research explained that small and medium-sized enterprises across the world have a great impact on the growth of economies through the creation of employment, innovation and an increase in productivity (As cited in Ashford, 2008). However, women in Ghana struggle with issues like illiteracy or semi-literacy hence creating an obstacle to processing paperwork when applying for loans from the traditional banking system to boost their businesses. Also, due to the inheritance system in the country, women lack ownership over assets like land which could be used for collateral to secure loans from the traditional banks. The sizes of their businesses are also not large enough to serve as collateral for their loans (Ashford, 2008).

## Problem Statement

The formulation and growth of a business depends on the ability to access critical resources, most importantly financing. However, Hill, Leitch and Harrison (2006) in a study showed that women had an issue with accessing financing for their businesses. The main reasons for this issue were attributed to female-owned businesses being risky because of their small size and the type of businesses they were involved in which were mostly retail and services (Hill, Leitch & Harrison, 2006).

However, recently international aid donors, governments, scholars, and other development experts have found Microfinance to be a great strategy to enable women to contribute to the development process of the country. MFIs have made great efforts to understand the financial needs of women in order to create products and services that suit their needs and bridge the gap between women and the traditional banking system (Cheston & Kuhn, 2002). A 2001 survey by the Special Unit on Microfinance of the United Nations Capital Development Fund (SUM/UNCDF) studied the gender of clients of 29 microfinance institutions. The survey reported that about 60 percent of the clients of these institutions were women. Six out of the MFIs reviewed focused solely on women and the remaining offered mixed-sex programs of which 52 percent were women (Cheston & Kuhn, 2002). The Ministry of Finance also explains that the client base of most MFIs in Ghana consists mostly females who run microenterprises (Ministry of Finance, 2015).

With the introduction of Microfinance, the issue of access to financial services by women has been eliminated and hence they should play a role in the development and growth of female-owned businesses. This research seeks to study the growth in female-owned businesses which have received financial services from Microfinance Institutions and to also reveal any issue that is hindering its effect on the growth of the female-owned business.

## Research Objectives

This research seeks to achieve the following objectives:

- To find out if female-owned businesses have experienced growth through the help of financial and non-financial services from Microfinance Institutions
- To find out if the non-financial services are being utilized by female business owners
- To find out the factors that are undermining the effect of microfinance on the growth of female-owned businesses

## Research Questions

In examining the impact of Microfinance services on female-owned businesses, the study will answer the following questions:

- Has there been growth in businesses owned by women who accessed financial and non-financial services of Microfinance Institutions?
- Are the non-financial services being utilized by female business owners?
- What are some of the factors that undermine the effect of Microfinance on the growth of female-owned businesses?

## Conceptual Framework

The framework below shows the link between microfinance financial (loans, savings) and non-financial (business advisory, monitoring) services and its effect on the growth of female-owned businesses. Women who use microfinance services receive both financial and non-financial services. Research by Cooper, Gimeno-Gascon and Woo

(1994) and Honig (1998) has shown that financing and financial education are key in enhancing the growth of businesses. The framework illustrates the theory of how these services which are offered by Microfinance Institutions affect the growth of female businesses.

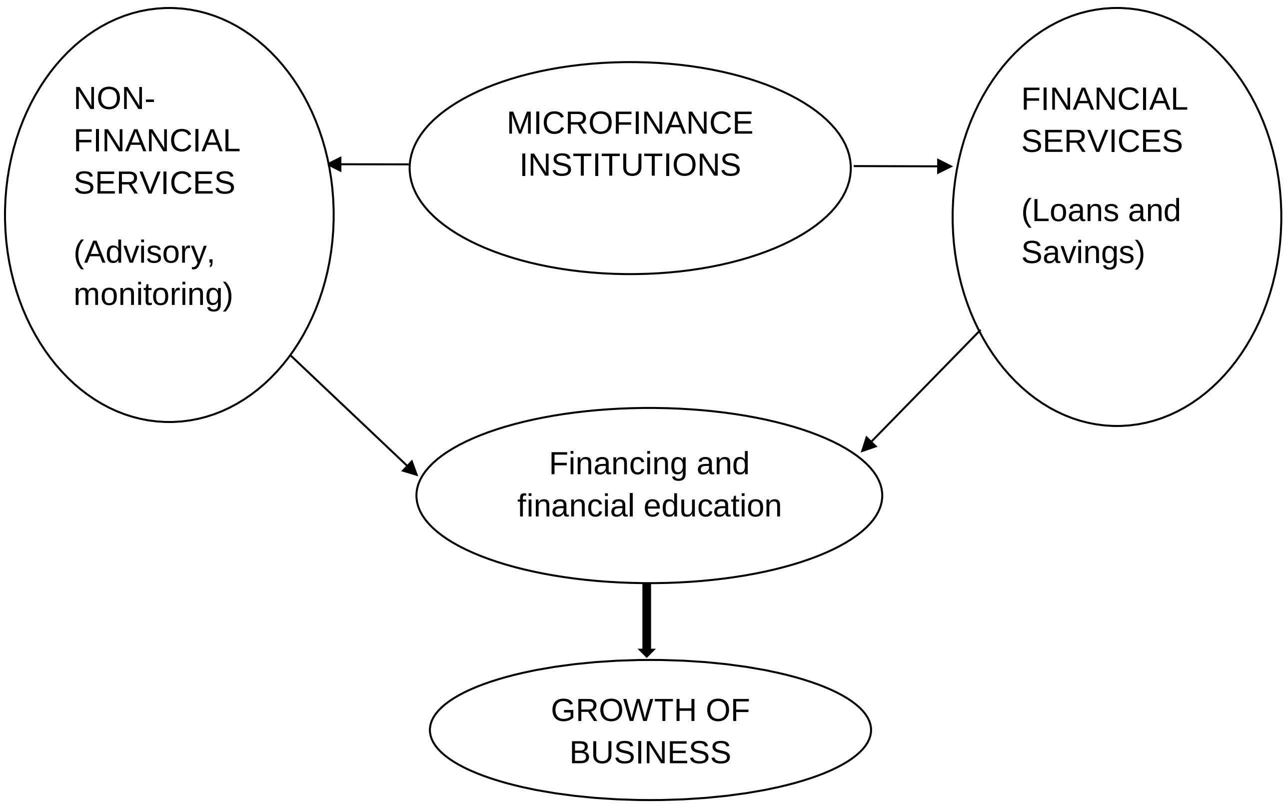



*Figure 1.* Cognitive Map

## Significance of the Study

Financing and financial education are important for the growth and success of every business. Without financing, a business will not be able to grow and expand. However, in Ghana, Ashford (2008) in her study revealed that women in Ghana had problems accessing loans and other services from the traditional banking institutions.

This was due to issues like their inability to secure loans because they lacked collateral and also because they found the processes in obtaining loans to be cumbersome and rigid.

Women in Ghana own a lot of small businesses and are active economically. It is very important to focus on improving their productivity in order to reduce poverty and create the grounds for sustainable development in the country. Extending financial support to small and medium-sized businesses is a great way to improve productivity since it is an area where women predominate (World Bank, 1999). Also, a better understanding of how to manage their business finances is important to the survival and the growth of female-owned businesses.

Microfinance institutions enable easy access to loans and encourage savings and investment for low-income individuals and people who do not have access to typical banking services. They also offer advisory services to clients on business management skills necessary for their businesses and repayment of loans.

Understanding the effect of Microfinance Institutions on the growth of female-owned businesses could be a breakthrough for women empowerment in the country. Women form an equally large percentage of the population of the country and understanding how their business could be improved with the services of Microfinance would help MFIs and the government to set policies and improve services of MFIs to suit the needs of these businesses. A boost in female-owned businesses will lead to a corresponding boost in the economy of the country.

## Scope and Limitation of the Study

This study focused on the financial and non-financial services offered by Microfinance Institutions and its effect on the growth of female-owned businesses which use these services. In order to explore the effect of MFIs on the growth of female-owned businesses, the study assessed the growth of the businesses by looking at the increase in assets, revenues and employees after the introduction of the Microfinance services from the responses of the female business owners interviewed. The research was also done on female businesses located in two suburbs of Accra, Accra Central and Odorkor.

Some limitations associated with the study was funding and time constraints hence the scope of the study was based on a selected amount of businesses in few areas of the country mainly Accra Central and Odorkor. Also the research did not focus on other factors that could account for growth in businesses, hence, there could be other contributing factors to the results of the research.

## Methodology

A qualitative research methodology was used for the study. This sought out the views and opinions of female business owners on the services they received from the MFIs to discover the effect on the growth of their businesses. It also explored any factors that could be undermining the effect of microfinance services on the growth of female-owned businesses.

The target population was female-owned businesses. A non-probability sampling technique, purposive sampling, was used to get the sample for the research. This was done to allow the researcher to choose participants relevant to the study.

Primary data was used for the research; this was collected from thirty female-owned businesses that have used microfinance services and two selected MFIs. This data was collected using semi-structured interviews and questionnaires respectively. Data gathered was analyzed using descriptive analysis such as tables and charts and cross tabulation to form associations.

## Outline of the Report

In the second chapter, the paper reviewed literature surrounding the topic being studied and provided a summary of the literature reviewed in order to inform the researcher in the field of study. The methodology was discussed in the third chapter including the population, sample size and sampling method and techniques that were used to perform the analysis of the data gathered. The fourth chapter presented and analyzed the data gathered, explaining any discrepancies between the actual and expected results of the study. Finally, the fifth chapter drew conclusions out of the findings and gave recommendations on the topic researched.

# CHAPTER TWO: LITERATURE REVIEW

## Introduction

This chapter reviewed and discussed literature relevant to the study to build up theories and inform the research. It is divided into sub-sections that looked at various aspects related to the topic and delved into findings of other researchers on the topic.

## The State of Finance for Businesses in the Informal Sector in Ghana

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRS II) is to ensure "sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment". This is to eradicate poverty among the poor who form a large portion of the working population of Ghana. Among the working population of Ghana, 80 percent can be found in the private informal sector. This sector is mostly known for their lack of credit which stifles their development and contribution to the economy of the country (Ministry of Finance, 2015). This also was stressed in the International Monetary Fund Country report of Ghana of May 2003, that "weaknesses in the financial sector that restrict financing opportunities for productive private investment are a particular impediment to business expansion in Ghana." The Ministry of Finance believes that the presence of MFIs is a great way to provide access to credit for the significant poor in the country. This access is necessary for the development of the private informal sector which forms a large part of the economy and hence can contribute significantly to the development of the economy. (Ministry of Finance, 2015).

## Challenges of female-owned businesses

Watson (2006) in his study reports relatively lower levels of financing from external sources specifically banks in female-owned businesses compared to male-owned businesses. However, the difference was seen to be greater in older firms than younger ones. His study suggests that pecking order theory, where businesses will consider internal funding first before external funding, is the main cause of the difference rather than the issue of bank discrimination which most researchers attribute the difference. His argument is based on the assumption that women are more risk averse and also prefer to have absolute control of their businesses hence, they would be less inclined to go for external financing (Watson, 2006). However, he did not provide any evidence that suggests that females are more risk averse in his study. Hence, it is possible that bank discrimination exists and might be contributing to the observed difference in the relative levels of external funding in female-controlled compared to male-controlled SMEs.

Orser, Riding, and Manley (2006) also showed that women would not go in for external financing from banks for their businesses for reason like, “lack of experience in dealing with banking institutions, inability to build a credit rating, lack of financial literacy, absence of networks, inherent gender bias and rigid lending policies”. Some women also felt frightened by banking institutions (Orser, L.Riding, & Manley, 2006). This research shows a gap in the services offered by the traditional banking institutions, describing it as rigid since it does not make room for clients who cannot provide all the requirements needed for securing financing for their businesses. Unlike the findings of Watson (2006), Orser et al saw the issue of low levels of external funding in female-owned businesses as a gap in the traditional banking system hence making it hard for females to access credit from them.

The International Fund for Agricultural Development report also suggests that bank discrimination is even more intense against women in Sub-Saharan African countries like Ghana. The reasons given were similar to that of Ashford (2008) which include illiteracy or semi-illiteracy amongst women and the cumbersome paperwork for processing loans from banking institutions. Also, women's lack of ownership over resources like land and buildings makes it difficult to produce collateral for loans. Finally, banks' ability to lend is also limited by "inflation-induced de-capitalization" leaving them with limited funds to loan out. In such cases, women often are low on their priority list (International Fund for Agricultural Development [IFAD], 2000).

Sarris (2002) also agrees that "certain social structures are the main reasons that prevent Ghanaian women from having access equal to that of men, particularly to land, credit, education, and extension services, and most of them have their roots in the traditional society"(Sarris, 2002). Ardayfio-Schandrof and Wrigley (2001) also reveal that this unequal access to such resources reduces the level, type and extent to which women can contribute to the development of the economy (Ardayfio-Schandrof and Wrigley, 2001). Both researchers reveal the gap in women's participation in economic development because of the issue of access to credit to boost their businesses. The lower participation of females in the economy due to these issues has led to unrealized potential gains from an equally large portion of the population that is women. Financial literacy and financing are one of the main issues that women face in running their businesses (Russia Financial Literacy and Education Trust Fund, 2013).

## Microfinance and Female-owned businesses

A report by Ghana's Ministry of Finance classifies women as one of the main targets of microfinance enterprises (Ministry of Finance, 2015). It goes on to state that "microfinance as a sector has the potential to reduce poverty by bringing a significant improvement in the lives of the active poor who are largely women" (Ministry of Finance, 2015). Hence, the existence of microfinance is intended to have a positive effect on the lives of women by making access to financial services easier and flexible.

Kabeer (1994) explains that the "feminization of development entailed in microfinance is commonly justified through efficiency and empowerment arguments that draw on the principles of social capital theory". His research also agrees that women lack the collateral needed to compete for loans in the traditional banking institutions. His research shows that women spend more of their income on household expenses than men and have higher creditworthiness and lower default risk (Kabeer, 1994). Morduch (2000) believes that extending credit to women for their businesses will lead to positive outcomes for the business, households and the communities they live in as well as the lenders (Morduch, 2000).

Nahapiet and Ghoshal (1998) defined social capital as "the sum of the actual and potential resources embedded within, available through and derived from the network and the assets that may be mobilized through that network" (Nahaphiet and Ghoshal, 1998). Rankin (2002) also explains that the main model used by MFIs which is the group lending model is based on "social collateral" through one's membership in a group. This helps correct for imperfect information about most individual borrowers who lack access to credit from banks by providing the necessary collateral through the collective efforts of the group. Also, default is taken care of through peer enforcement and sanctions (Rankin, 2002). From Rankin (2002), social capital allows females to participate freely in enjoying financial services through their relationship with other females to build a unit that meets the requirements for loans. Hence, Microfinance Institutions are able to offer loans to a group of females who together can provide the necessary requirements for loans as a group. Fernando (1997), Mayoux (1995) and Morduch (2000) also explained that “donors consider microfinance to be a “win–win” approach to development because investors can mobilize bonding social capital to enhance the financial viability of banking with poor women, and poor women gain access to both social and financial resources that allow them to help themselves through the market mechanism” (As cited in Rankin, 2001). However, it is not known if women actually prefer the idea of social capital theory in the form of group loans as to individual loans. Although the concept seems to eliminate the issue of accessing finance and creates benefits for women, it might not be the case for women.

“In Ghana, the clients of microfinance are predominantly women in both rural and urban centers and these women are engaged in activities such as farming, food processing, petty trading, service provision and street vending” (Ministry of Finance, Ghana, 2015). A report from the International Fund for Agricultural Development explained MFIs and women social empowerment groups have caused significant improvements in the lives of its clients mostly rural poor women through education, training and offering finance for their businesses. However, such results have been greatest when women receive all these services as one package (IFAD, 2000). Hence, a combination of both financial and non-financial services by Microfinance institutions according to the International Fund for Agricultural Development should have a greater positive effect on the lives of females who receive their services.

## Financing and growth of businesses

Looking at the relationship between financing and success of businesses, Cooper, Gimeno-Gascon and Woo (1994) found that “higher levels of education, industry-specific experience, and financial capital all contributed to firm survival and growth”. Further, they found that female-owned businesses were not as likely to grow as male-owned businesses, however, both were equally likely to survive. (Gimeno-Gascon and Woo (1994). This study shows that even in the presence of financing and financial education, there were still factors that might be specific to female undermining the impact of financing on their businesses. Similarly, in a study of Jamaican micro-entrepreneurs, Honig (1998) found that higher education and financial capital caused an increase in the earnings of a firm. However, female-owned business still struggled even with the presence of these two factors to increase the earnings of their businesses (Honi, 1998). This could also be related to gender-specific factors that are undermining the impact of financing and education on the growth of female-owned businesses.

However, research by Chandler and Hanks (1998) suggests human capital and financing could substitute each other. The research found that the presence of higher human capital and lower financing gave the same level of earnings as the combination of the opposite (Chandler and Hanks, 1998). This questions the relationship between financing and growth of businesses drawing attention to other factors that also equally contribute to the growth of firms.

Coleman (2007), also had contradicting results for the relationship between financial capital and growth of female-owned businesses. Her study showed that financial capital was only important to the growth of male-owned business because female business owners hardly used external financing for their businesses because of bank discrimination (Coleman, 2007). Her research, however, could not see a significant increase in growth of female-owned businesses because external financing had not been fully utilized in their businesses hence, it could be the reason why males seemed to see more growth than females.

## Conclusion

This chapter explored some theories that are associated with microfinance and females. The social capital theory, which is applied to group loans offered by Microfinance Institutions was reviewed. Also, the concept of financial and non-financial services leading to a positive effect on the growth of businesses who receive such services was also reviewed. Finally, the pecking order theory as against bank discrimination as the cause for lower levels of external funding in female businesses was reviewed.

# CHAPTER THREE: METHODOLOGY

## Introduction

This chapter covers the methods and procedures that were used to gather information surrounding the study. This includes the research design, sample frame, population, sample size, sampling technique, method of data analysis and method of data collection. It also discusses the methods used to analyze data collected as well as how the data is collected.

## Research Design

The research is mainly a qualitative research.  This is because it focused on getting responses of the female business owners on the effect of MFI services on the growth of their businesses in terms of increase in their assets, employees and revenues and also any issues that could be undermining this impact. It also explored the services offered by the MFIs to understand the models used in giving out loans. Semi-structured interviews and questionnaires were used to obtain data for the research, which is a combination of both open-ended and closed-ended questions in order to help the researcher probe further into the responses given for the research.

## Population

The target population of the study is thirty female-owned businesses located in Odorkor and Accra Central and also two Microfinance Institution, Asa Ghana and Progressive Savings and loans. Only two MFIs were looked at because of time and resources constraints. These areas were also chosen because of the concentration of female-owned businesses and their link to the Microfinance institutions selected. The Microfinance institutions were chosen based on availability and willingness to participate in the research. Finally, proximity and familiarity also influenced the researcher’s choice of location for the study. As such it was convenient for the researcher to carry out the research.

## Sampling Method

To understand the effect of Microfinance on the growth of female-owned businesses, it is important to understand the models of the services provided by the microfinance Institutions. Hence, a sample of two Microfinance Institutions was selected, that is Asa Savings and Loans, Odorkor Branch and Progressive Savings and Loans, Accra Central Branch. Purposive sampling was the technique used to select the microfinance Institutions. This technique is a non-probability sampling technique where “decisions concerning the individuals to be included in the sample are taken by the researcher, based upon a variety of criteria which may include specialist knowledge of the research issue, or capacity and willingness to participate in the research” (Oliver, 2006). This was used mainly because of the willingness of the microfinance institutions to participate in the research and the time limitation. Purposive sampling was also used in sampling the female-owned businesses that use the services of the Microfinance Institutions selected since the data needed is specific to this group. This method allowed the researcher to choose participants that were relevant to the success of the research and is less time consuming and expensive because the researcher is able to eliminate participants that cannot provide relevant information necessary for the study.

## Data and Collection Methods

For data collection, both primary data and secondary data were used for the study. The primary data was obtained from the questionnaires and interviews with the female business owners and MFIs. Interviews were used to obtain data from the female business owners due to the issue of semi-illiteracy. Two Loan Managers of the MFIs were also given questionnaires to fill since they worked closely with the female business owners and had an in-depth understanding of the models used in administering the services of the MFIs. Secondary data included information on the client base of the MFIs and reports on the payback of female clients.

## Research Instruments

A semi-structured questionnaire and interview format was used for this research and the questions included a combination of closed and open-ended questions. This gave the researcher an advantage since there was a chance to probe further into the responses given by respondents to ensure clarity and depth in the responses.

In obtaining information from the female business owners, semi-structured interviews was used. This was divided into four sections designed to gather information on various aspects of the research. The first section focused on the general questions about the nature of the business and services received from the MFI. The second section focused on the impact of loans, the third section focused on the impact of saving and the fourth section focused on gathering information on the impact of the non-financial services.

Also, questionnaires were administered to loan managers of the MFIs to get a general overview of the models used in the services provided by the MFIs and the challenges they face working with female business owners. This was in the form of open-ended questions to allow the researcher to probe further into responses and better understand the models used by the various MFIs.

## Data Analysis

In analyzing the data received, the respondents were grouped into three classes based on the number of times they had received loans from their current MFI. This was done because the length of time the client had been in a relationship with the MFI could have an effect on the growth of their business differently.

Descriptive analysis was used in analyzing the qualitative data received. This was done to describe how MFIs have impacted the businesses based on the variables of growth chosen. Hence, it assisted in giving a vivid description of the actual effect on female-owned businesses.

Cross tabulation is also used in the analysis of the data to see the relationships between the three classes created in the study and the revenue variable of growth used for the study. Excel was also used to generate frequencies for drawing charts for the analysis to ensure easy understanding of findings.

## Limitations

The researcher faced some limitations in the analysis of the data. In the use of cross tabulation to analyze the data, the researcher could not build associations for other variables aside increase in revenue because of the requirements for the chi-square test. Each category had to have at least five occurrences to make the test valid, however, it was not seen in all cases.

Another limitation the researcher faced was the language barrier. Most of the respondents could not speak English or were not very fluent in the language and hence the researcher struggled with administering the research in the local dialect. In order to overcome this barrier, the researcher called for help from the loan officers to translate aspects of the interview where the researcher faced difficulty.

# CHAPTER FOUR: DATA ANALYSIS AND RESULTS

## Introduction

In this chapter, the findings of the research conducted on the effect of Microfinance on the growth of female-owned businesses are analyzed and results from the analysis are presented. The section is divided into three parts. The first part focuses on the data gathered from the MFIs on the models of their services. The second part focuses on the nature of the female businesses. The third part focuses on the data obtained on the effect of the financial and non-financial services offered by the MFIs to answer the research questions. An analysis of the results is also presented and linkages to literature are also made.

## Models used by Microfinance Institutions selected

From the data gathered from the Microfinance Institutions selected, each Microfinance Institution has a similar way of administering loans to its clients. However, this is structured in a way that it will be easy for collection on the part of the MFI and convenient for the customer.

Asa Savings and Loans is an MFI in Ghana that has ninety-three (93) offices across six (6) regions in the country. The company offers loans to only females with their main aim of supporting women empowerment. Their services are aimed at meeting the needs of their clients without disregarding credit risk. They have a flexible mode of repayment as shown in TABLE 1 below.

Table 1

*Loan Repayment Structure*

| Loan product (period) | 6 months | 10 months | 12 months |
|---|---|---|---|
| Mode of payment | Weekly | Monthly | Weekly |
| No. of payment | 24 | 10 | 45 |
| Rate / period (%) | 20 | 30 | 35 |
| Collateral | None | None | None |

Source: Field data

The main aim of the company is not to make profit from its operations but to empower women and help them attain some level of socio-economic development. Their clients are made up of 100% women. When asked to rate the creditworthiness of the female clients, the loan manager rated them ten, being the highest. He added that they had a recovery rate of 99.85% leaving their portfolio at risk below an average of 0.15%.

Advisory services are also given to their clients on the management of the loans they received in order to prevent default. This is through advising them to adopt book-keeping systems and limiting the drawings they made out of the business for personal use.

They offered both individual loans and group loans. The group loans have a maximum number of 20 females and members of the group are mostly referrals by other group members. In this system, the client makes a deposit which is 10% on the loan when the loan is received. Payback is on a weekly basis and an additional amount of GHC5 is also paid weekly as a form of savings or backup for the client in case of a situation where they cannot pay back their loan. It is also a way to save money in order that the client does not have to keep coming for loans but rather they can use the accumulated savings for their businesses.

Monitoring of client is a key risk control practice of the firm. The loan officers and clients of the group loans have weekly meetings throughout the period they have acquired the loan and failure to fulfill this obligation is a key factor to eliminate members from the next loan cycle due them. The group loan does not offer larger amounts of loans as compared to the individual loans. However, it is preferred by the MFIs because it is convenient to reach the group for collection and also less risky because the members know each other very well. Hence in cases of default they can easily reach the defaulters.

Progressive Savings and Loans is also an MFI in Ghana with five branches in the capital. In the Accra Branch, the percentage of female clients is 70%, mainly petty traders and service providers. When asked to rate the creditworthiness of their female clients, the manager of the branch gave them a six (6) because he stated that some clients diverted the loans into other ventures aside the ones with which they requested the loans. However, he could not give a recovery or default rate. In terms of administering the loans, customers are made to maintain a daily savings account with the company before and after the loan is given out so the company will still have some money even after the loan cycle. Finally, they offer advisory services in the form of simple bookkeeping procedures so clients are able to track their expenses, sales and purchases. Also, clients are advised to practice savings so that they do not rely on loans anytime they need a capital injection.

According to the loan officers interviewed from both companies, one of the major challenges they faced was that they had a large number clients assigned to each loan officer and hence monitoring was time-consuming and inconvenient for them. Also, another issue had to do with offering advisory for their clients, they complained that the clients felt they had been in the business for a long while so they already understood their businesses and hence saw no need for their advisory services. Lastly, they complained about the clients not using the loans for their businesses as they requested. An example of a client who used the loan to buy a car and defaulted in payment was cited. This issue caused the client to default and increase the risk of the business.

## Data on the Nature of the Businesses

A total of thirty (30) female business owners were interviewed from both Accra Central and Odorkor. A total of eight (8) different types of businesses were assessed mostly microenterprises. TABLE 2 shows the nature of the various businesses that were owned by the female business owners interviewed.

**Table 2**

***Nature of Businesses of Female Clients***

| Type of Business | Number | Percentage |
|---|---|---|
| Provision Shop | 10 | 33% |
| Under garments Vendor Stand | 3 | 10% |
| Herbal Store | 1 | 3% |
| Aluminum wares Shop | 1 | 3% |
| Food vendor stand | 4 | 13% |
| Hairdressing Salon | 3 | 10% |
| Sewing shop | 2 | 7% |
| Boutique | 6 | 20% |

Source: Field data

## Effect of Financial Services on the Growth of Female-owned Businesses

This section presents an in-depth analysis of the impact of the financial services specifically loans and savings on the female-owned businesses. In terms of the loans, the analysis is done in relation to the number of times the business owners have received loans from their current Microfinance Institution. The growth of the businesses is assessed looking at the increase in asset; stock, the number of stores and so on, revenues and the number of employees. The reasons behind the responses given by respondents were explained as well to throw more light on responses since respondents did not have written data to back their responses.

Out of the 30 business owners interviewed, 6.7% of them said they had received a loan from other institutions aside Microfinance Institutions, specifically Banks. However, they preferred MFIs because of the lower rates, less cumbersome processes, little collateral requirements and immediate loan delivery. The main reasons for most women choosing MFIs and no other sources like banks, friends or relatives was because of the payment procedure which they explained was very convenient for them compared to taking loans from other sources. One respondent hammered on the fact that when loans are taken from family and friends it could destroy the relationship especially in cases of default and hence she would rather use the services of an institution that was more structured. This result is in line with the findings of Orser et al (2006) which explains that women do not prefer banks because of the cumbersome and lengthy processes they have to go through to receive the loans and their inability to meet the collateral requirement.

In order to assess the effect of the loans on the growth of businesses, classes have been assigned to businesses based on the number of times they received loans from the MFI they are working with currently. TABLE 3 shows the various classes assigned to the businesses.

**Table 3**

***Number of Times Businesses Received Loans from Current MFI***

| CLASS | FREQUENCY | NUMBER | PERCENTAGE |
|---|---|---|---|
| A | 1-4 | 17 | 56.7% |
| B | 5-9 | 13 | 43.3% |

Source: Field data

In relation to the increase in assets of the businesses, 100% of the respondents said they had seen an increase in the size of their assets, mainly stock. However, clients with a lower frequency of taking loans had not benefited as much as clients with a higher frequency because of the size of the loans they received. Clients in class B were receiving a larger loan size than clients in class A because they had built a stronger relationship with the MFI and had a good track record. According to one of the respondents in Class B, her business had seen a huge boost in terms of stock available ever since she went for loans. On her own, she was not able to afford as much stock as she does now after the introduction of the loans from the MFIs. She also said that it was easier and faster to get the loans than if she had to get it from friends or the banks which will take a longer period. Another respondent in Class B who had the highest number of loans (9), added that she has expanded her businesses and currently aside having a fruit stand, she also has a stand where she sells noodles at night with the help of the loans she had been receiving.

The researcher also looked at the increase in revenues of the business since the introduction of the loans. Six (6) of the respondents in Class A said they had not seen an increase in their revenues. The rest of the eleven (11) said they had seen an increase in their revenues since the introduction of the loans. In class B, six (6) of the respondents said they had not seen an increase in their revenues. The rest of the seven (7) respondents said they had seen an increase in their revenues. A chi-square test was run on the data using cross tabulation to establish associations.

**Table 4**

***Cross tabulation between Revenue and Classes***

| | | | Increase in Revenue | | |
|---|---|---|---|---|---|
| | | | No | Yes | Total |
| This represents the number of times someone has received a loan | A | Count | 6 | 11 | 17 |
| | | % of Total | 20.0% | 36.7% | 56.7% |
| | B | Count | 6 | 7 | 13 |
| | | % of Total | 20.0% | 23.3% | 43.3% |
| Total | | Count | 12 | 18 | 30 |
| | | % of Total | 40.0% | 60.0% | 100.0% |

Source: Field Data

**Table 5:**

***Chi-Square Test* Result**

| | Value | Df | Asymp. Sig. (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
|---|---|---|---|---|---|
| Pearson Chi-Square | .362[a] | 1 | .547 | | |
| Continuity Correction[b] | .051 | 1 | .821 | | |
| Likelihood Ratio | .361 | 1 | .548 | | |
| Fisher's Exact Test | | | | .711 | .410 |
| Linear-by-Linear Association | .350 | 1 | .554 | | |
| N of Valid Cases | 30 | | | | |

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.20.
b. Computed only for a 2x2 table

Source: Field Data

Looking at the data from the cross tabulation analysis, the asymptotic significance which is the p-value is 54.7% which is greater than the alpha value of 5%. This means the results is statistically insignificant and hence the number of times a person receives a loan is not dependent on the increase in revenues of the business. Hence the fact that a client has received more loans than another client does not mean the client will have an increase in revenues as compared to the client who has received lesser number of loans. An increase in revenues, however, could be affected by various factors like conditions of the market which affect sales, the economic situation, demand and supply and so on.

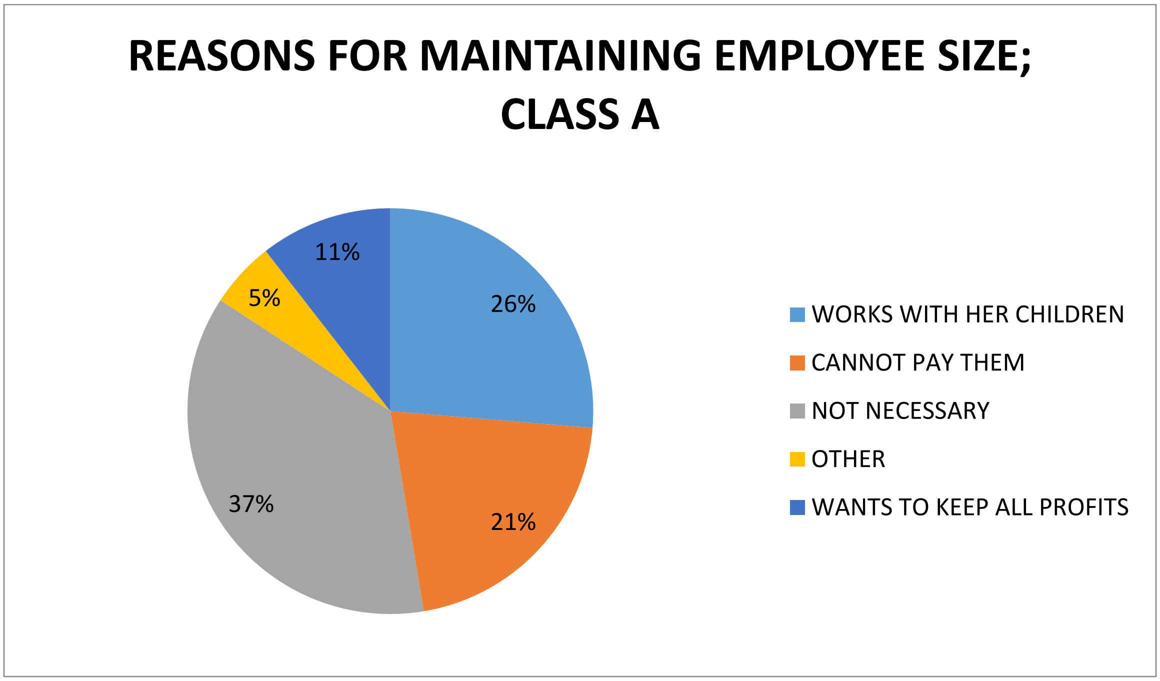
For clients who said that they had seen an increase in their revenue gave some reasons to back their claims. A respondent in class A said that her ability to increase her stock has boosted her number of customers since she was able to purchase a variety of goods for her provision shop. She has also been able to eliminate disappointing her customers because of shortages which she experienced frequently in the past. This has increased her revenue level significantly.

However, respondents who did not seem to see any increase in their revenues complained that the current market conditions were affecting their businesses drastically. One respondent in class B complained about the current situation of the country's economy and how it is affecting the rate at which their goods are being sold. This is affecting the effect of the loans on their revenues.

Respondents also complained about the size of the loans also hindering the increase in their revenues. For example, one of the respondents, a seamstress, said that the size of the loan she receives was not enough for her to purchase fixed assets like her sewing machines to be able to increase her productivity and revenues. However, she was able to purchase more materials and other cheaper equipment needed for her job hence that helped her perform better and deliver her goods faster to clients hence boosted her revenues but not to the point where she wanted.

Another variable that is hindering the effect of the loans on revenues is the money management habits of the women, most of the women did not know how to separate their business from their personal lives and hence withdrew money for personal use without accounting for it. One respondent said that she always found herself buying things from vendors who passed by her shop on a daily basis and even bought things that were not necessary with the money she got from her sales. This is a major reason preventing them from gaining the full benefit of the loans that they received.

Under the increase in employees of the business, only one respondent increased their employee number by one extra person. The rest of the sixteen (16) respondents in class A said they had employed more workers. CHART 1 below presents the reasons why female business owners in class A did not increase their employee size.




Source: Field data

***Figure 2.* Reasons for Maintaining Employee Size; Class A**

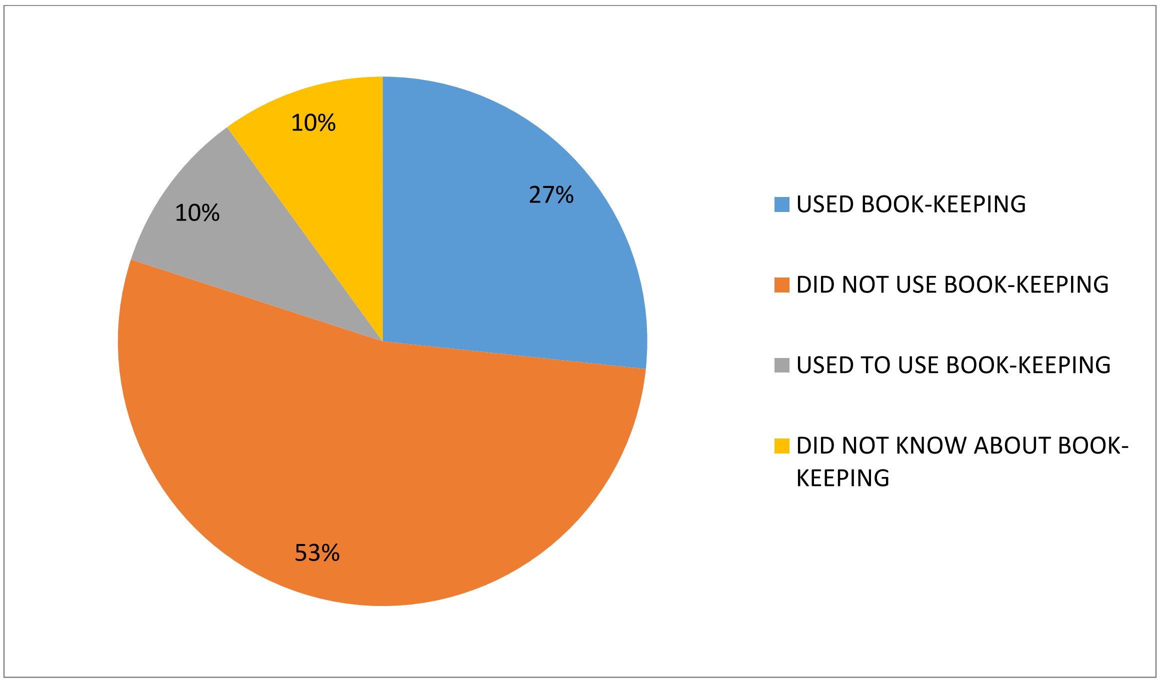
Under Class B, five (5) of respondents said they had increased the number of employees since they started receiving loans from their current MFI. The increase was due to the need for more hands because of increased business assets and customer base. The number of employees added ranged from 2 to 3. The eight (8) remaining respondents gave reasons similar to that of respondents in class A for not increasing their number of employees.

Looking at the data for the increase in the number of employees, Class A respondents were more likely to maintain the number of employees as compared to class B since the introduction of the loans. This could be because they have a lesser frequency in taking loans and also because they might not be receiving a larger amount from the MFIs as compared to the other classes because they are beginners in the loan taking process. Also, the businesses in class B due to their higher frequency have been able to grow their businesses more than that of the businesses in class A. However, increase in number of employees is also affected by personal preference of the owner of the business hence for business owners who are not willing to share their profits with other employees; they will want to run the business by themselves. The presence of children was also a dominant factor and according to one respondent, she did not see the need to get more employees if her creator had gifted her with children.

Finally, under savings, since it was compulsory for the clients to save with the MFI to check defaulting, 100% of the clients had savings with the MFI and they all said that it was beneficial to their business because they could pay back their loans in cases where market conditions were not favorable. Also, it helped them to cover other expenses especially school fees for their children. One respondent said that even though it was a bit painful to be paying extra she could still see the benefit and as long as the money was still hers, she was fine with it. Also, some respondents said that the compulsory savings were very good because it has helped them developed the habit of saving. One client said that even if she stopped using the services of Microfinance, she will still continue saving because it had become a part of her lifestyle.

## Effect of Non-financial Services on the Growth of Female-owned Businesses

This section explains the impact of the non-financial services offered by the MFIs mainly advisory and monitoring on female-owned businesses. The main elements under advisory were the use of book-keeping and paying themselves as business owners. The data shows the utilization of these services by female businesses and its impact on their businesses. CHART 2 shows the data concerning the use of non-financial services specifically book-keeping systems by female businesses.




Source: Field data

***Figure 3*. The Use of Book-Keeping by Female Business Owners**

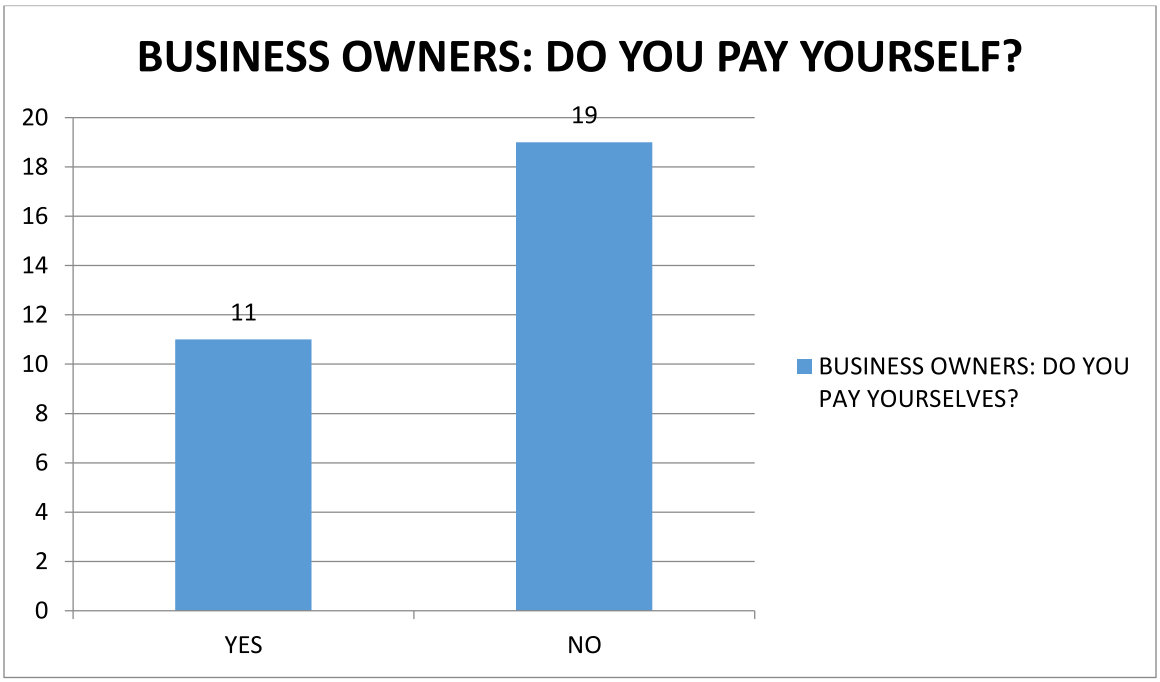
In CHART 2, 53% of the respondents interviewed did not use the book-keeping system, 27% of the respondents said they used the book-keeping system, 10% of the respondents said they used to use the book-keeping system and the remaining 10% said they never knew about the book-keeping system.

Respondents who did not use the book-keeping system gave many reasons. First, it was difficult to use the book-keeping system because their businesses were fast paced and it would be difficult for them to account for the sales made if they had to keep track of things on paper. The women also believed that they were able to memorize the needed information to make their businesses profitable. Hence, there was no need for the book-keeping system since they had been doing that for years. One respondent said that her brain was her paper and it has never failed her so she did not see the need to do anything on paper. Another issue was the ability to read and write, which prevented the women from using the book-keeping system. Finally, some women also did not see the use of the book-keeping system and hence had no motivation to carry it out in their businesses. In the words of one respondent, ‘the book-keeping system does not even make sense to me in the first place’.

For the 27% of the females that used the book-keeping system in their businesses, one respondent said it was her child that did the book-keeping for her due to literacy issues. They explained that they recorded their income and expenses which helped them to know how much they were earning on their businesses. 75% of this group said it was important because it helped them to access their business and see which areas needed attention. The other 25% said they just did it to know the profits they were making. Out of that one woman talked about how it was important to know the profit because she was a religious tither and did not want to cheat God.

For the 10% that started using it but stopped, they explained that it was difficult for them to be consistent with the book-keeping system. They either forget to take records or they leave the books at home and hence, they do not record a particular day’s sales. When this practice accumulates they just give up on the system entirely. One respondent complained about how overwhelming the process was for her when she started which prevented her from continuing.

Another issue on the advisory sevices that was explored was the issue of personal drawings. The business owners were asked if they paid themselves or just redrew money from their business at any point in time for personal use. CHART 3 shows the responses the researcher received on the issue.




Source: Field data

***Figure 4*. Method of Personal Drawing by Female Business Owners**

From CHART 3 above, 11 of the respondents said they set a pay aside for themselves either weekly or monthly. The rest of the 19 respondents said they did not pay themselves but redrew money at any point in time for their personal use.

The 19 respondents were asked why they did not pay themselves. First, some women said they received money from their husbands to take care of family expenses and hence did not redraw a lot of money from their businesses to consider paying themselves. Some women also said that they had been doing this for long and did not see the need to pay themselves. One respondent explained that a pay was for people in the informal sector and not people like her. She further explained that she was not making enough money to start paying herself. Some also gave the excuse that they were already paying their workers and if they added themselves it would be more cost to their businesses and they feared they will not make a profit if they paid themselves. Finally, some women said they did savings for major issues and the money they deducted was just for little things hence they don’t think they should pay themselves.

The eleven (11) respondents who said they paid themselves also said that it has helped their businesses positively because then they were able to preserve their capital since they were not spending their profit without a plan for it. They also said it also helped them to be disciplined with their business and their personal lives since they had to learn to manage the pay they were receiving for the period given.

Looking at the relationship between the people who practiced book-keeping and the people who pay themselves, two (2) out of the eleven (11) respondents who paid themselves also used the book-keeping system.

## Factors Undermining the Effect of Microfinance on the Growth of Female-owned Businesses

This section looks at the factors that undermine the effect of Microfinance financial and non-financial services on female-owned businesses according to responses of female business owners interviewed.

From the research, most of the women loved the services offered by the Microfinance Institutions. However, there were still issues that did not allow them to enjoy the full benefits of the services they received. One of the main issues raised was the market conditions due to the current economic crisis the country is facing. There were complaints of an increase in supply with the help of the loans they receive without a corresponding increase in demand for their goods, hence slowing down the growth of their businesses. It took a longer period for their goods to clear these days and it was a concern that cut across all the females interviewed.

Second, the size of loans was another factor that prevented the MFIs from having a positive effect on the growth of female-owned businesses. Loans received were not large enough to expand their businesses as they would want to. The loan size was more suitable for clients who wanted to purchase current assets like inventory than for clients who needed to purchase fixed assets like machinery and land. Even though businesses were growing because of the loans it was not to a point that will move them from micro-enterprises to medium-sized enterprises that could contribute more to the economy. Their businesses will remain as small businesses with the loans that they receive from the MFIs.

Also, another factor that affects the impact on female businesses is the attitude of female business owners themselves. Most of the female business owners believe that they are experienced in the work that they do and so are not open to accepting new ways of running their businesses to encourage the growth of their businesses. Also, most of them are not accountable when running their businesses. They make drawings on the business' account for personal use which could deplete profits and even capital. Hence, this is preventing their businesses to grow at a faster rate.

Finally, the MFIs are not really offering the advisory and monitoring services to their clients. The clients complained that it was mostly a rushed session and they did not fully understand what they were taught. Also, monitoring was mostly carried out only in order to track the payment of their loans and not necessarily to see how their businesses are faring. Most respondents said that they would love it if more attention was given to their business than the repayment of their loans.

## Findings and Theories Discussed

According to Cooper, Gimeno-Gascon and Woo (1994), a high level of education, experience and financing lead to survival and growth of businesses. This was also seen in the data obtained from the research. Financial capital was needed to sustain and grow their businesses. Also, advisory services helped in the management of the businesses that applied the advice they received. In a study of Jamaican micro-entrepreneurs, Honig (1998) found that a high level of education and financing lead to an increase in earnings of a business however women struggled even with the presence of these factors. Honig (1998) related this to gender-specific factors that are undermining the effect of financing and education on the growth of female-owned businesses. However, in this research, factors that prevented growth cannot be associated with a specific gender since both genders were not examined. Also, the factors were general for example market conditions which can affect every business.

Under the social capital theory, Kabeer (1994) and Rankin (2002) explained that the collective resources that are obtained from group loans helps to eliminate the issue of females accessing financial services and MFIs struggling with clients who lacked the requirements needed for loans, creating a win-win situation for both the MFIs and the female clients. However, respondents who used the group loan system did not necessarily see it as a win-win situation since they did not like being accountable for each other in their various groups.

Finally, Watson (2006) associated low levels of external funding in female businesses to the pecking order theory rather than bank discrimination. From the research, both theories hold, respondents would rather use their own funds if they had than borrow. Also, when it came to borrowing, respondents did not prefer the traditional banks because they did not fit into their system which they described as rigid and cumbersome.

# CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

## Conclusion

This research was carried out to investigate the effect of Microfinance on the growth of Female-owned businesses. This was done by looking at both the financial services and non-financial services offered by Microfinance Institutions mainly loans, savings and advisory services. The research also explored factors that could be undermining its effect on the growth female businesses. In order to do this, the research tried to answer the following questions;

- Has there been growth in businesses owned by women who accessed financial and non-financial services of Microfinance Institutions?
- Are the non-financial services being utilized by the female business owners?
- What are some of the factors that undermine the effect of MFI's services on the growth of female businesses?

From the research, MFIs have had a positive effect on the growth of female-owned businesses in terms of its financial services even though there are some factors that are hindering its impact on the growth of female-owned businesses. The research looked at growth in three ways, increase in assets, increase in employees and increase in revenues. There was a positive correlation between the financial services and the increase in assets. Considering increase in revenues, a larger portion of the respondents saw an increase in revenues. However, there were factors that affected their revenues which prevented an increase for the other respondents. Under increase in employees, it only increased along with the frequency of the loans received. It was also subject to the preference and needs of the owners.

The effect of the non-financial services, however, was difficult to assess since a large percentage of respondents were not applying the business advisory services to their businesses. The few respondents who applied it to their businesses saw an impact in their business operations. It helped them to detect losses easily and improve areas that were not performing in their businesses. Hence, it was observed that the non-financial services helped in the growth of the business from an inside-out approach, however, most women did not see it as relevant for their businesses.

There were also factors that hindered the impact of both the financial and non-financial services offered by MFIs.

- The size of the loan which was not enough to cause a significant increase in growth of their businesses
- The current market conditions which affect their sales and hence slow down the sale of their goods and services enhanced by the loans acquired
- Personal attitudes like lack of consistency and discipline in applying the non-financial services to their businesses

## Recommendations

Having established that MFIs are having a positive effect on the growth of female-owned businesses, it is important that some things are done by both the government and MFIs in order to maximize this impact.

First, MFIs should give attention to advisory services and monitor the use of the advice their clients receive. Also, advisory should include more than book-keeping lessons but also entrepreneurial advice for their businesses. This is important to help instill discipline in running the financial aspect of their businesses which is linked to its growth. They could do this by holding more sessions on business management with their clients to ensure that clients understand what exactly they can do to manage their businesses. Monitoring should also go beyond the collection of debt but also check up on the businesses and receive feedback on advisory services.

MFIs should also carry out a lot of market research to understand the needs of their female clients. This will help them tailor their services to the needs of their clients and offer better services to them. For example, with market research, the group loans can be rebranded to suit the needs of the female clients in order to make it more attractive for them and create a real win-win situation for both parties.

Also, the government and policymakers should provide incentives like an awards event exclusive for Microfinance Institutions to ensure that MFIs effectively implement advisory services to their clients. Advisory services should also go beyond book-keeping and management of the loans received. It should include advice on entrepreneurial activity and business management. The government should also look at supporting MFIs financially through government grants and international grants as well to help them carry out these services and increase the size of the loans they give out. MFIs are doing a great job in helping promote businesses of females and it is necessary that the government offers support to them.

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# APPENDIX

## INTERVIEW QUESTIONS FOR FEMALE BUSINESS OWNERS

## THE IMPACT OF MICROFINANCE SERVICES ON FEMALE OWNED BUSINESSES

## ASHESI UNIVERSITY COLLEGE

## THESIS

1. What is the nature of your business

2. What type of service did you receive from the Microfinance Institution?
   A) Financial services
      (a) Loan
      (b) Savings
   B) Non-financial services
      (a) Business counselling/ training

**<u>Loans</u>**

3. Aside Microfinance Loans have you taken loans from other sources? If yes please specify

4. Why did you choose to use Microfinance and no other sources?

5. How many times have you received a loan from Microfinance Institutions for your business?

6. Was the loan used to purchase assets for your business? If yes what assets did you purchase?

7. Did you employ more people to run your business after receiving the loan? If yes how many people? If no, why?

8. Would you say your revenues increased after receiving the loans? If yes explain with figures if possible

9. Would you say the loan was not useful to your business? Please explain

10. Have you faced any problems repaying the loans you received? If yes please explain

**Advisory services**

11. What advice were you given when receiving the loans?

12. Have you applied the advice to your business so far? If yes describe your experience

13. Are there any factors hindering the use of the advice received?

**Savings**

14. Why do you save with Microfinance Institutions?

15. What benefits have you received from saving with Microfinance Institutions for your business?

**General question**

16. What challenges do you face on the whole dealing with Microfinance Institutions?

**QUESTIONNAIRE FOR MFIs**

**THE IMPACT OF MICROFINANCE SERVICES ON FEMALE OWNED BUSINESSES**

**ASHESI UNIVERSITY COLLEGE**

**THESIS**

1. Name of Microfinance Institution
   ……………………………………………………………………………………………
   …………………………………………….
2. What percentage of your loan clients are women?
   ……………………………………………………………………………………………
   ………………………………………………….

3. What sectors do their businesses fall under?
   ……………………………………………………………………………………………
   ………………………………………………….

4. What type of advisory services do you offer for them on the management of the loans? Please explain.
   ……………………………………………………………………………………………
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5. Do you monitor them after they receive the loan? If yes, have they been successful in managing the loans?
   ……………………………………………………………………………………………
   ………………………………………………….
   ……………………………………………………………………………………………
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   ……………………………………………………………………………………………
   ………………………………………………….

6. On a scale of 1 to 10, where will you place women in terms of credit worthiness
   …………………………………………………………………………………………
   ……………………………………………………
7. How is your services structured to support growth in your clients businesses?
   …………………………………………………………………………………………
   ……………………………………………….
   …………………………………………………………………………………………
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8. Are there any special packages for female clients? Please explain the package
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9. Please explain the structure of loans and collection procedure
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