THE EFFECT OF INTEREST RATE ON LOAN REPAYMENT IN MICROFINANCE INSTITUTIONS – A CASE STUDY OF TANOAH CAPITAL POINT LTD

BY

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A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCE LEARNING, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI, IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A COMMONWEALTH EXECUTIVE MASTER OF BUSINESS ADMINISTRATION DEGREE.

JUNE, 2011.
DECLARATION
I hereby declare that this submission is my own work toward the Commonwealth Executive Master of Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has not been accepted for the award of any other degree of the University except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this thesis to the Lord Almighty
ACKNOWLEDGEMENT

First of all, I thank the Almighty God for granting me the strength wisdom and knowledge to complete this work

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ABSTRACT
The study sought to appraise the effect of interest rate on loan repayment in microfinance institutions. Tanoah capital Point Ltd, a microfinance institution in Kumasi was used as a case study for the study. The research was conducted using questionnaires and interviews. In all 100 customers and 20 employees were sampled for the research. A systematic random sampling was used for the data collection. The findings of the research revealed that though interest rate plays a major role in loan repayment, other factors such as loan term and the repayment frequency also influence to a large extent the loan repayment. Customers indicated that though lower interest rate would enhance loan repayment, the issue of accessibility and availability of funds was paramount. To enhance loan repayment, the researcher recommends lower interest rate to ease loan repayment burden and loans granted should be amounts that customers can service. Again, micro-insurance could be established to protect the Institution and customers against any default.
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LIST OF ABBREVIATIONS

MFI – Microfinance Institutions
TCP – Tanoah Capital Point
NBFI – Non Bank Financial Institution
SHG – Self Help Group
NGO – Non Governmental Organization
MDG – Millennium Development Goal
NTHC – National Trust Holding Company
SIC – State Insurance Corporation
ERP - Economic Recovery Programme
IMF – International Monetary Fund
SAP – Structural Adjustment Programme
FINSAP – Financial Sector Adjustment Programme
ATM – Automated Teller Machine
SMS – Short Message Service
RCB – Rural and Community Bank
PNDC – Provisional National Defense Council
FNGO – Financial Non Governmental Organization
ROCSA – Rotating Savings & Credit Associations
UNDP - United Nations Development Programme
CBRDP – Community Based Rural Development Programme
REP – Rural Enterprise Project
MASLOC – Microfinance and Small Loans Scheme
ARB – Association of Rural Banks
CHAPTER ONE

GENERAL INTRODUCTION

1.0 Background to the Study

A Microfinance Institution’s (MFI’s) main objective is to provide poor and low income households with an affordable source of financial services. Interest charged on loans is the main source of income for these institutions, and because they incur huge costs, the rates are correspondingly high. Four key factors determine these rates: the cost of funds, the MFI's operating expenses, loan losses, and profits needed to expand their capital base and fund expected future growth (Ghatak, 1999).

Many policy makers question why microfinance interest rates remain high even when some MFIs receive concessional funds to finance lending. Although some microlenders receive loan funds at concessional rates, they must cost these funds at market rates when they make decisions about interest rates to ensure the sustainability of the institution's operations. Donors provide concessional funds for a particular usage only for a limited period, as do some governments. However, concessional funds cannot be considered a permanent source of funds for MFIs, and provision must be made through interest rates to sustain the lenders' operations (Ghatak, 1999).

Inflation adds to the cost of microfinance funds by eroding microlenders' equity. Thus, higher inflation rates contribute to higher nominal microcredit interest rates through their effect on the real value of equity. Microlenders have two kinds of operating costs: personnel and administrative. Because microlending is still a labor-intensive operation, personnel costs are high. Administrative costs consist mainly of rent, utility charges, transport, office supplies,
and depreciation of fixed assets. Making and recovering small loans is costly on a per unit basis. Often loan recovery is executed by staffs who visit clients, increasing costs in time taken and transportation used. Poor physical infrastructure-inadequate road networks, transportation, and telecommunication systems-in many countries in which microlenders operate also increases administrative costs and adds significantly to the cost of microfinance operations. Inadequate law and order also contribute to high administrative costs as microcredit operations often involve cash transactions and the physical movement of cash (Pitt, and Khandker, 1998).

In many countries, the majority of microcredit is provided by a few leading institutions, and competition among them is mostly on non-price terms. This might not be the case in Ghana where Microfinance Institutions (MFIs) spring up every day. Today in Ghana the MFIs compete with traditional Banks in the cities as well as have dominance in the rural areas. Large-scale commercial banks with access to low-cost funds, low operating costs, extensive branch networks, and vast human and other resources to provide financial services efficiently are presently not significantly involved in microcredit. The lack of participation of such conventional financial institutions in the microcredit market also limits potential competition. Although it is widely recognized that microfinance alone will not end poverty, it is a vital step in that direction. Microfinance institutions, also known as MFIs, offer financial services to underserved, impoverished communities.

Previously, entrepreneurs seeking loans in impoverished communities had to provide collateral to borrow from unlicensed lenders at inequitably high interest rates. A number of factors, including high administrative costs relative to small loans and small returns, had kept
banks from setting up branches in impoverished communities when surer profits were to be had elsewhere.

The lack of an efficient financial services industry has held back many would-be entrepreneurs with viable business plans from realizing their own potential. Women, in particular, have been excluded as loan candidates in developing communities. The lending practices of many emerging microfinance institutions have given people living in extreme poverty the opportunity to realize their potential in the business community (Rahman, 1999)

1.1 Problem Statement
Charging prices high enough to cover costs is essential for any business to survive in the marketplace. This is true for institutions providing microfinance services as it is for any other enterprise. Thus, it is not surprising that many successful microfinance institutions charge high interest rates to cover their high costs. However, despite the success of those institutions in expanding the supply of credit during the last two decades to an increasing number of poor and low-income households, most borrowers default in paying back those MFI loans.

Studies into microfinance in Ghana did not concentrate on the effect of interest rate on loan repayment on Microfinance Institutions even at the time when MFIs are finding it very difficult to collect loans which have been given to beneficiaries is receiving much attention. This creates a serious research gap into microfinance of which this study seeks to close.

1.2 The Objectives of the Study
The objective of this study is to appraise the effect of Interest on loan repayment in Microfinance Institutions in Ghana which includes:
1. To appraise the effect of MFI interest rate on repayment of loans.

2. To determine the effect of other factors on MFI loan repayment

3. To appraise the factors that determine interest rate by MFIs

4. To appraise the measures adopted to enhance the repayment of loans of MFIs.

1.3 Research Questions
Related to the problem, the research seeks to address four main questions outline below:

1. What is the effect of high interest rate of MFI on the repayment of their loans?

2. What is the effect of other factors on MFI loans repayment?

3. What are the factors that determine interest rate by MFIs?

4. What measures adopted by MFI to enhance the repayment of loans?

1.4 Significance of the Study
The significance to be derived from the study includes:

Providing the management of TCP and other MFIs with an insight into the effect of interest rates on loan repayment and recommendations to make adjustments where necessary.

It will also assist TCP and other MFIs to identify the other factors that also impact on loan repayment to enable them achieve a competitive edge in their respective businesses.

This study can be used as reference for further research. By conducting a research on a related subject, this study would serve as a platform to enhance their work. It will serve as a rich source of literature to other researchers, and the limitation of this research may be built
on by others studying on the same topic. It is also hoped that findings from this research would confirm or refute the existing knowledge about the effect of interest on loan repayment on MFIs especially Tanoah Capital Point Limited.

Though this research is to partially fulfill an academic requirement for the award of a masters degree, it is expected that recommendations would be provided to complement regulatory bodies and government’s efforts in addressing MFIs problems of repayment of loans which serve as a negative in the development of small and medium enterprises.

1.5 Scope of the Study
The study was conducted within the framework of the effect of interest rate on loan repayment on Microfinance Institutions. The study was carried out at the Tanoah Capital Point (TCP) Limited branch in Kumasi. It is a case study approach of one particular MFI (TCP) and would not cover other MFIs to reflect the entire industry response to the effect of interest rate on loan repayment on MFI. Hence the results would not be generalised but its findings would be placed in the relevant context of the individual MFI studied.

1.6 Limitation of the Study
A project of this nature requires an extensive study of all microfinance companies in the metropolis. This requirement is constrained due to the dispersed nature of these companies and the lack of time and funding. Furthermore, the trustworthiness of respondents especially clients of the company cannot be guaranteed, since personal opinion can influence responses. In view of these limitations, however, it can serve as a useful input into decision and policy making.
1.7 Organisation of the Study
The research work is divided into five (5) chapters.

Chapter one, is dedicated to the introduction and research context. Further relevant sections have addresses the statement of the problem, research questions, and the objectives of the study, significance of the study, scope and limitation of the study. Chapter two, is devoted to literature review, various views from different authors were reviewed as regards the effect of interest on loan repayment on MFIs and definition of variables. Chapter three concentrates on the background of the study area and the methodology of the research. Chapter four focuses on the Findings, Analysis and Discussions of Results. Chapter five covers the summary, conclusion and recommendations.
CHAPTER TWO

REVIEW OF RELEVANT LITERATURE

2.0 Introduction

This Chapter reviews previous works relevant to the topic under research. This is done elaborating an overview of microfinance/microcredit, the traditional role of microfinance industry as providers of loans to economic active and rural productive areas, lending approaches of these institutions taking into consideration the effects of interest rate on loan repayment on MFI, financial overview in Ghana with the hindsight of Non Bank Financial Institutions (NBFI’s) and the evolution of microfinance in the Ghanaian economy.

2.1 Microfinance/Microcredit: An Overview

An increasing body of analytical work has attempted to explain the functioning and meaning of microfinance, there is hardly any agreement on a universally accepted definition of microfinance.

Researchers and microfinance visionaries are divided in their opinions when it comes to microfinance, its range and its targeted recipients. As Sriram and Upadhyayula (2002) put it, "It appears that what microfinance means is well understood, but not clearly articulated".

However, microfinance is generally an umbrella term that refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises (Sharma, 2001).

In the work of Shankar (2006), Micro-loan markets represent one of the more recent developments, which enable poor households to access credit. These are markets where very
small (hence micro) loans are extended to poor households. Often, such loans are given only to women, and in groups. Borrowers in these markets have no meaningful physical collateral and are heavily credit constrained. Micro-loans are characterized by three essential features: a) loans are short-term in nature, relatively small amounts and consummated without physical collateral, but structured with social collateral; b) loans are extended typically to a group, whose size can range from five (in the Grameen model) to twenty (in the Self-Help-Groups or SHG), where the group members are jointly liable for default by any member of the group; and c) loans carry frequent interest payments (weekly in many cases) and carry significant administrative expenses that are incurred in order to ensure timely delivery of loans to remote villages and for the collection of payments. Many literatures suggest that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. (Shankar 2006)

Otero, (1999) testifies that microfinance provides material capital to a poor person, the sense of dignity is strengthened and this can help to empower the person to participate in the economy and society. The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a
country and so can access capital markets to fund their lending portfolios, allowing them to
dramatically increase the number of poor people they can reach (Otero, 1999).

In a much narrower sense, though, microfinance is often referred to as microcredit for tiny
informal businesses of micro entrepreneurs, the services being mainly delivered by socially

As a whole the range of institutions go beyond the NGOs and include commercial banks,
state owned development banks, financial co-operatives and a variety of other licensed and
unlicensed non-bank institutions (Ibid)

Microcredit, generally, is important to the growth and development of microenterprises.

However, many credit programmes previously viewed the poor as potential defaulters and
placed credit programmes beyond their reach. Even though wide experience today shows that
poor people are not bad credit risks and that their repayment rates can be exemplary, the poor
still are considered to be a high-risk credit population, expensive to serve, and unable to pay
the full cost of credit; they are believed to require government subsidization of credit. More
recently, writers such as Littlefield et al (2003), Simanowitz et al (2004) have commented on
the critical role of micro-credit in achieving the Millennium Development Goals (MDGs). In
their opinion, micro-credit is a critical contextual factor with strong impact on the
achievements of the MDGs.

According to Simanowitz and Brody (2004), microcredit is a key strategy in reaching the
MDGs and in building global financial systems that meet the needs of the most poor people."
demands placed upon them by increasing outreach through greater attention to financial management, thus helping them to attain financial sustainability eventually.

This notwithstanding, some schools of thought remain skeptical about the role of microcredit in development. For example, while acknowledging the role microcredit can play in helping to reduce poverty, Hulme and Mosley (1996) concluded from their research on micro-credit that "most contemporary schemes are less effective than they might be". The authors argued that micro-credit is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off. However, it has emerged globally as a leading and effective strategy if properly harnessed, can make sustainable contributions through its financial intermediary to the empowerment and far-reaching impact in transforming the lives of poor people, especially women.

2.2 Overview of the Financial Sector in Ghana
Ghana has a diverse array of financial institutions engaged in rural and microfinance ranging from rural banks and savings and loans companies that are formally licensed by the Bank of Ghana to informal savings collectors and rotating savings & credit grants.

According to Akuoko (2000), reference from (Databank report, 2003), the post independence era up to 1983 saw the adoption of a planned and closed economy with a wide range of restrictions on the financial sector. The restrictions involved import licensing, exchange controls and directed lending. These developments led to a complete domination and control of the banking industry by the government. The Bank of Ghana then carried out all international banking involving remittances, letters of credit, and collections, allocations of foreign exchange, travel or tourism. The Bank of Ghana was empowered to control the
banking system, set ceilings on advances or investments banks. A greater portion of the commercial banks’ loan portfolio went to meet public sector borrowing requirement and the state enterprises.

Rural Banks were also set up (in 1976) to provide banking services to the rural communities. The non-bank financial sector was relatively undeveloped except for the existence of State Insurance Corporation (SIC) and National Trust Holding Company (NTHC). The control systems created serious distortions in the financial sector and also in the whole economy. The serious distortions in the financial sector led to the adoption of the Economic Recovery Programme (ERP) in 1983 to liberalize the economy and therefore the financial sector. The Bank of Ghana promulgated the rural banking idea and established it as a supplement to the commercial and development banking and as a boost to facilitate business transactions and financial services for the general development in the rural areas. In 1983, the Government of Ghana embarked on an Economic Recovery Programme (ERP) after determining the macro economic framework jointly with the World Bank and International Monetary Fund (IMF). The objectives of the programme were: to free the economy from state controls and market distortions, promote a liberalized private-sector led trade and investment regime, pursue an export-led economic growth strategy and the restructure of the public sector of the economy in order to improve the prospect of growth. Akuoko, (2000)

The recovery programme was pursued in three phases spanned from 1983-1993. The first phase was focused on stabilizing the economy by reducing severe imbalances in government finances, restraining credit expansion and encouraging productive activities (1983-1986).
The second phase which covered the period of 1987-1989 and called Structural Adjustment Programme (SAP) was sought to rehabilitate the economy by tackling structural imbalance through removal of major bottlenecks in the economy and laying the foundation for sustained growth.

The third and final stage also focused on the accelerated structural and institutional reforms, and by laying of firmer foundation for growth of the private sector included Financial Sector Adjustment Programme (FINSAP). The FINSAP which was implemented in two stages of FINSAP I (1989-1990) and FINSAP II (1991-1993) had the broad objectives of enhancing sound banking system through improved regulatory and supervisory framework and to improve the mobilization and allocation of financial resources including development of money and capital markets. It sought to enhance the effectiveness of a broad range of Non-Bank Financial Institutions. Debrah, (1998), in 1993, the Financial Institutions (Non-Banking) Law was passed to provide a legal framework for a whole new set of financial institutions that were being established. The institutions include discount houses, finance houses, acceptance houses, mortgage finance, hire purchase, building societies, savings & loans, leasing companies and venture capital companies.

Generally, the term Non Banking Financial Institution (NBFI) includes all financial institutions other than banks which participate in the financial intermediation process. NBFIs thus include securities institutions such as the Ghana Stock Exchange and its licensed dealing members, collective investments institutions such as unit trusts and mutual funds and contractual financial institutions as insurance companies and pension funds.
There are therefore two broad categories of NBFIs, namely those which are deposit taking institutions and those which do not take deposits directly from the general public i.e. non-deposit taking institutions. Ghana’s financial sector has seen tremendous strides in growth in recent years. This has led to a corresponding increase in the number of businesses and firms offering financial services.

After FINSAP 2, the banking sector continues to experience strong regulation and supervision and the development of a modern payments and settlement system. Notable is the Bank of Ghana Payment Systems Development Strategy aimed at delivery of financial services to deepen financial intermediation through the development of electronic payment products such as ATM services, transfer of funds at Point of Sale, e-money, internet, SMS and telephone banking. Recently, “e-zwich” was introduced to provide a common platform to help link the various banking institutions with a biometric smartcard (Acquah, 2009).

The banking sector has been the formal mode of financial intermediation in Ghana. However, there is an urgent need to utilize all available resources so that financial resources which are currently outside the banking sector can effectively be attracted into the NBFI sector. In this way, the NBFIs can complement the banking institutions in channeling the available resources to investment opportunities to create jobs and expand both private and public sector trade and investment.
2.2.1 Evolution of the Microfinance Sub-Sector in Ghana

Admittedly, the concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures.

A report by Osei et al (2007) argues that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. However, Susu, which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century. Over the years, the microfinance sector has thrived and evolved into its current state thanks to various financial sector policies and programmes undertaken by different governments since independence. Among these are:

- Provision of subsidized credits in the 1950s;
- Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;
- Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions.
The policies have led to the emergence of three broad categories of microfinance institutions namely:

- Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks whose operations are registered, licensed and regulated by the Bank of Ghana;
- Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives that are formally registered but not licensed/regulated by Bank of Ghana;
- Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals that rarely involve legal documentation. (Osei et al., 2007)

Programmes currently addressing the sub-sector in Ghana include the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP). (ibid)

2.2.2 Structure and Key Stakeholders of Microfinance in Ghana

The structure and key microfinance stakeholders in Ghana consist of the following:

Microfinance Apex Bodies, namely:
• Association of Rural Banks (ARB)
• ARB Apex Bank
• Association of Financial NGOs (ASSOFIN)
• Ghana Cooperative Credit Unions Association (CUA)
• Ghana Cooperative Susu Collectors Association (GCSCA)

Microfinance Institutions, including

• The Rural and Community Banks,
• Savings and Loans Companies
• Financial NGOs
• Primary Societies of CUA
• Susu Collectors Association of GCSCA
• Development and commercial banks with microfinance programs and linkages
• Micro-insurance and micro-leasing services.
• Microfinance firms

Supporting Institutions

• Microfinance and Small Loans Center (MASLOC);
• The Ghana Microfinance Institutions Network (GHAMFIN);
• Development partners and international non-governmental organisations
• Universities, training and research institutions.

Government Institutions

• Ministry of Finance and Economic Planning
• Ministries, Departments, Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs)
• Bank of Ghana and
• Other private people

2.3 The Structure of the Microfinance Sector
Ghana has a vast range of formal, semi-formal and informal institutions providing microfinance services to the rural and urban poor. Financial intermediation and credit activities are under the regulatory jurisdiction of the Bank of Ghana. The regulatory framework of the banking law (2004) and the non-banking financial institution law (2008) accommodates a tight structure of licensed financial intermediaries and of financial regulations.

Microfinance, however measured, has increased rapidly in Ghana since the start of the present decade, growing by 20-30 percent annually. Microfinance Institutions (MFIs) currently provide financial services to an estimated 15 percent of the country’s total population compared with 10 percent for the commercial banking sector (Bank of Ghana, 2007).

2.3.1 What are microcredits and how do they work?
Microfinance Institutions (MFIs) provide poor families with very small loans (so-called microcredits, typically in the range of hundred to a few hundred US dollars) to help them engage in productive activities or grow their small businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as it became
clear that the poor and the very poor who lack access to traditional financial institutions require a variety of financial services.

Microcredit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and other countries. Microcredit has largely been a private (non-profit) sector initiative that focuses on providing standardized credit products at interest rates that should cover the costs of credit delivery and guarantee a sustainable business without relying on subsidies. Pitt et al (1998).

2.3.2 Why are monthly rates in the range of 5 to 7% justifiable?
Providing financial services to poor people is quite expensive, especially in relation to the size of the transactions involved. This is one of the most important reasons why banks don't usually provide small loans. A US$100 loan, for example, requires the same personnel and resources as a US$1,000 one thus increasing per unit transaction costs. Loan officers must visit the client's home or place of work, evaluate creditworthiness on the basis of interviews with the client's family and references, and in many cases, visit their clients to reinforce the repayment culture. It can easily cost US$25 to make a microloan. In absolute terms this is easily understandable but in relative terms it might represent 25% of the value of the loan, and force the institution to charge a seemingly high rate of interest to cover the cost of its loan administration.

2.3.3 Why clients are willing and able to pay these rates
Practical evidence shows that clients are willing to pay the higher interest rates necessary to insure long term access to credit. They recognize that their alternatives - even higher interest rates in the informal sector (moneylenders, etc.) or simply no access to credit - are much less
attractive for them. Paxton, (1999). Interest rates in the informal sector can be as high as 20 percent per day among some urban market vendors. Many of the economic activities in which the poor engage are relatively low return on labor, and access to liquidity and capital can enable the poor to obtain significantly higher returns, or to take advantage of economic opportunities. The return received on such investments is often many times greater than the interest rate charged. In economic terms we could say that poor people previously without access to capital operate in a very steep part of the utility curve. This fact actually makes microfinance economically viable and is one of the core drivers of what we expect will be a rapid expansion of private-sector led microfinance initiatives in the next years.

2.3.4 Why microfinance should be used only for certain types of clients
It is important to realise that microfinance is just one of many private and public sector instruments to support development in poor countries. Each instrument should be focused on those situations in which it is most effective. We have pointed out that for microcredit to be economically sustainable and thereby reach a large number of clients it needs to price loans in a realistic way.

Microcredit is only useful in certain situations, and for certain types of clients. Microcredit serves best those who have identified an economic opportunity and who are in a position to capitalize on that opportunity if they are provided with a small amount of cash. Thus, those poor who work in stable or growing economies, who have demonstrated an ability to undertake the proposed activities in an entrepreneurial way, and who have demonstrated a commitment to repay their debts are the best candidates for microcredit. Martin, (1997).
Extremely poor people who do not have any stable income – such as the very destitute and the homeless – are not ideal microfinance clients, as they will only be pushed further into debt and poverty by loans that they cannot repay. What these people require are safety nets that can help them with basic needs and which are provided by specific development programmes.

MFIs must continue to work to improve efficiency levels (operating expense ratios), to increase scale and improve leverage (debt-to-equity ratios). This will bring down the cost of providing loans, and increase benefits transferred to the poor in terms of improving loan products, better access to loans, and lower borrowing costs. Martin, (1997).

2.4 Loan Default Risk-An Issue in Microfinance/Microcredit

Many people agree that the initial success of Microfinance Institutions can be largely attributed to the management of credit risks. In general, default risk is arguably claimed to be a non-issue in microfinance. Taking Grameen Bank as an example, since its inception, the bank has distributed around Tk347.75 billion (or an equivalent of US$6.55 billion) in loans. Of this amount, Tk313.11 billion (or US$5.87 billion) has been repaid. The bank claims a loan recovery rate of 98.4 percent in 2003, an improvement compared to the 95 percent recovery rate claimed in 1998. In short, micro lending is known to have very low default rate, such as in the case of Grameen Bank which has a default rate of as low as 2 percent. Rahman (1999)

However, many critics doubt this recovery rate, particularly on the definition that Grameen Bank categorizes loans as default as well as the method of recovering the loans being extended. Micro lenders have been reluctant to highlight the weaknesses of Grameen Bank
mainly due to its well-known reputation as a symbol of microfinance. However, in the recent years, the repayment difficulties faced by Grameen Bank are even acknowledged by the founder himself, Mr. Yunus. Several factors have been attributed to the repayment difficulties such as political upheavals, the 1998 flood and management errors. Information lag due to inefficiency is also quoted as another reason, where the recovery rate of 95 percent was only true until 1996. (www.gramenbank.org)

Pearl and Philips (2001) attest to this fact of high default rate in the ‘so called success of Gramen bank’ in the sense that in 2001, about half the loan portfolio in two northern districts of Bangladesh that have been used to highlight Grameen's success is overdue by at least a year. For example, 19 percent of loans are one year overdue. According to Grameen Bank, a loan is delinquent if it is not paid off two years after its due date. Under this definition, about 10 percent of all the bank's loans are overdue. As a comparison, in 1997, 4.6 percent of Grameen's loans were more than two years overdue. The worst case is in the Tangail region with 32.1 percent of the loans overdue by two and half years.

Another study by Goet and Gupta (1995) also revealed high default rate in micro credit programmes, where women often act merely as collection agents for their husbands and sons, such that the men spend the money themselves, while women are saddled with the credit risk.

According to Powers (2005), it must be recognized that the changes in markets, products and services, delivery models, and technology used in the industry have had, and continue to have, profound implications on the overall risk profile of the industry over time. MFIs or others which provide microfinance services can no longer afford to focus only on credit and liquidity risks and consider other types of risk on an ad hoc basis, often in a reactive manner.
Bell (1990) demonstrates that incomplete information or imperfect contract enforcement generates the possibility of loan default and eventually problems of credit rationing.

However, Kassim et.al (2008), field investigations revealed that the high degree of loan recovery in microfinance is partly contributed by some element of “forced-recovery” imposed on the borrowers, either directly or indirectly. Through their studies, informal interviews with the villagers and direct observations in the villages seem to indicate that there are actually frequent incidences of default in microfinance. In some cases where the borrowers are not able to pay back their loans, they are pressured to repay with whatever means that they have. In several circumstances, the borrowers faced losses where their business or agriculture projects do not bear fruit but they still have to repay according to the agreement that they have had with the MFIs. As a result, these borrowers were forced to sell off their lands or whatever property that they have, making them poorer than they were before and sometimes even making them homeless. Obviously, in this case, the MFIs are successful in recovering the loan that they have extended but the true objective of microfinance of alleviating poverty and improving the living standard of the poor are clearly being ignored.

Perhaps not too surprisingly given their heavy dependence on donors or official sources of finance, financial NGOs have the worst record of achieving either operational or financial self-sufficiency, surpassed only by government-sponsored programmness. The clear implication here is that without substantial subsidy, interest rates on loans provided by both NGOs and state-supported institutions would be significantly higher, with an attendant negative impact on repayment obligations. (Bank of Ghana, 2007).
Rural and community banks account for the lion’s share of MFI activity in Ghana, representing more than half the total number of microfinance borrowers and a similar proportion of the sector’s total loan portfolio. NGOs, by contrast, are comparatively unimportant: the average loan size is roughly one third that provided by rural and community banks and an even smaller fraction (25 percent) of the amount borrowed from savings and loan companies. On the other hand, loan repayment rates, at a reported 99 percent, are considerably higher among financial NGOs than among other microfinance providers or government-sponsored lending programs; their loan loss exposure is also relatively modest. (Aryeetey, 2008).

In Ghana, default risk has an enormous repercussion on the firm, society and the country as a whole as it was elongated by Micro Finance and Small Loans Scheme (MASLOC) boss Ms Ansah-Djan that her outfit had started working with the Bureau of National Investigations (BNI) and the Serious Fraud Office (SFO) to recover loans from defaulters under the scheme. By its records their default loan portfolio stands at GHS 81,846,875 by the end of 2009. Bringing in such state institutions attest to the magnitude of such risks in the country. (Daily Graphic, 2010)

MASLOC was established to support government's programme of a sustainable reduction in poverty as spelt out under the Growth and Poverty Reduction Strategy by providing micro credit and small loans, which are to be repaid with interest. MASLOC is expected to promote the emergence, development and growth of a sustainable and decentralized micro-financial sector with grassroots participation in ownership, management and control but such
aspiration is not seen today due default and other credit risks. The most dangerous problem a microcredit programme faces is repayment default. For example, in MASLOC disbursement, only 6.3 percent of about GHS 5 million disbursed to individuals between 2007 and 2008 has been retrieved, leaving a whopping 93.7 percent in the hands of defaulters. (www.ghanaweb.com, 2010).

Several factors predispose borrowers to default. Beneficiaries of microcredit tend to use their credit for the same limited range of small-scale activities in their area. In any given situation, it is likely that only a limited range of economically viable small-scale activities is available to the poor and that there is a limited demand for the product of any particular activity. Bundell (1997). These factors increase poor people’s vulnerability to defaulting. Diagne et al (2001) analyzed the determinants of access to credit and its impact on farm and nonfarm income and on household food security in Malawi. Their report showed that the contribution of rural microfinance institutions to smallholder income can be limited or negative if the design of the institutions and their services do not take into account the constraints and demands of their clients. Also, a vast body of literature supports the view that borrower characteristics are highly influential determinants of repayment. There is also strong evidence that institutional characteristics are equally important and that both factors need to be taken into account if loan default is to be minimized Derban et al (2005).

It is also true that public perception of credit programmes is an important factor influencing default.
Studies in Africa have revealed a tendency for people to think that funds from the government are free and do not require repayment. Tunisia has had a strong tradition of non-repayment of government-provided loans (ENDA 2005). Similarly, Makina et al (2004) studied the causes of low repayment for South Africa’s Khula Enterprise Finance credits. They found that a major contributing factor for default was beneficiaries’ perception that the microloans were free government grants.

Wakuloba (2007) highlighted in her study that with respect to institutional factors, the efficiency of the lending institution can reduce default. For instance, in Nepal, the more efficient microfinance institutions managed by the private sector were found to be better off than government-owned institutions. Efficiency may come from improvement in processes, computerization of management information systems, and improved financial management. Particularly with microcredit, small loans can be profitable only if administrative costs are reduced to the barest minimum.

2.5 Microfinance Interest Rate as a Function of Transaction Cost

It is often observed that the interest rates charged to borrowers of micro-loans are quite high. According to the United States Federal Reserve Board, (2005) the average interest rate charged by commercial banks for a 24-month personal credit loan was 12.22% in the third quarter of 2005. The average annual percentage rate charged on credit card debt was only slightly higher at 12.48% , yet the Annual Percentage Rate (APR) charged for a typical loan by microfinance institutions (MFIs) in India ranged from 20% to 40% in 2003. In lesser developed nations such as Ghana and Kenya rates reached up to 80% . These rates are quickly and errantly decried as exorbitant and usurious, when, in fact, they are the product of
some of the most fundamental principles of economics and are advantageous not only for the lender, but the borrower as well. (B& FT, 2010).

Interest rates charged for lending are a function of a number of factors, of those, transaction costs and risk figure prominently into the derivation of microlending interest rates. Microlenders are subject to significantly higher transaction costs than banks in the developed world, both in absolute and relative terms. Three types of costs are associated with the lending process: the cost of funds for on-lending, the cost of risk (loan loss), and administrative costs (identifying and screening clients, processing loan applications, disbursing payments, collecting repayments, and following up on non-repayment) (Daily Graphic, 2006).

With regard to loan administration, Microcredit is an industry that is heavily dependent on personal contact for its execution. This is very time consuming and resource intensive, and allows each loan officer to reach only a limited audience of potential borrowers. By contrast, much of the administrative process for commercial banks leverages technology for computerized credit scoring, communication with clients and payment processing. Not only is the administrative process less efficient for a microlender for each loan, but the problem is compounded further by the fact that while a developed commercial institution may lend a large sum of money to one borrower, a micro-lender will lend very small sums to many borrowers, thereby multiplying the total administrative costs by X number of borrowers.
The factors noted above contribute to a higher absolute transaction cost per loan, it is also important to note that the transaction costs relative to the loan size are considerably higher. Zohir et al (2001) illustrate this principle:

“Compare the costs of two hypothetical lenders, Big Lender and MicroLender, each of which lends US $1,000,000. Big Lender makes a single loan, while MicroLender makes 10,000 loans of US $100 each.

The costs of capital and loan loss risk vary proportionally with loan size. Both lenders need to raise US $1,000,000 to fund their loans and will have to pay the same market rate—say, 10 percent—for the money. If both lenders have a history of losing 1 percent of their loans to default each year, they will need a loan loss provision of that amount. Both lenders can cover the cost of their capital and their risk by charging 11 percent (10% + 1% = 11%) on the loans they make to their customers.

Administrative costs are not proportional to loan size. Making a single loan of US $1,000,000 might cost Big Lender US $30,000 (3 percent of the loan amount) in staff time and other expenses involved in appraising, disbursing, monitoring, and collecting the loan. Big Lender can cover all its costs by charging the borrower an interest rate of 14 percent (10% + 1% + 3% = 14%).

However, MicroLender’s administrative costs for each US $100 loan will be much higher than 3 percent of the loan amount. Instead of US $3 per borrower, MicroLender is more likely to have to spend US $20 or more per borrower. Big Lender has to deal with only a single borrower, but MicroLender has to deal with 10,000 borrowers who typically do not
have collateral, financial statements or records in the database of a credit reporting bureau. Many of these clients may be illiterate. Lending to, and collecting from, such clients, requires time-consuming personal interaction.

Assuming Big Lender’s loan is repaid quarterly, it has to process four payment transactions per year. MicroLender’s borrowers probably make repayments monthly or even more frequently, generating at least 120,000 transactions per year. While Big Lender’s administrative cost is US $30,000 per year that of MicroLender is at least US $200,000. Covering this cost requires a 20 percent charge on loaned amounts, resulting in an interest rate of at least 33 percent (10% + 1% + 20% = 33%). Note that administrative costs may be much higher in young MFIs that are too small to take advantage of economies of scale” as compared to bigger MFIs.

It quickly becomes apparent that a considerable portion of the higher interest rate charged to borrowers by microlenders is derived from increased costs associated with the transaction. It is a simple fact of business that costs must be covered in order to continue operation. Further premiums must still be added to the interest rate to account for the many and varied risks assumed by a micro-lender.

At this point, it is important to keep in mind that despite these high interest rates, micro-loans still provide positive marginal benefits for borrowers. Moreover, the potential to increase these benefits exists as the infrastructure of the industry grows, lowering costs. And finally, the high rates charged by microlenders are still considerably lower than those charged by informal sources, such as local money lenders.
2.6 Determinants of Interest Rates in Microfinance
There seems to be plenty of disagreement over the level of interest rate charged by microfinance providers because the factors that go into these calculations are not well known. These are some of the determinants: Fehmeen (2010)

2.6.1 Cost of Funds
A large portion of an MFI’s funds are sourced from commercial banks and the cost of these funds is the market interest rate. In fact, this financial expense, combined with the fees paid on such loans and deposits taken from the public, account for 23% of the interest rate charged by profitable microfinance providers.

2.6.2 Operating Expense
Personnel and administrative expenses form the largest component (62%) of interest rates charged by sustainable microfinance providers. The high transaction costs are associated with disseminating and recovering a large number of small-sized loans, often to clients in geographically dispersed areas with poor infrastructure and security conditions.

2.6.3 Contingency Reserves (Provision for Bad Debt)
‘Provisions for bad debt’ is often a regulatory requirement for bank-led MFIs but other types of MFIs realize the importance of creating an emergency fund to provide a cushion against the risk of loan defaults. As a result, ‘portfolio losses’ account for 6% of interest rates charged by successful microfinance providers, according to data provided by Microfinance Information Exchange.
2.6.4 Tax expenses
Since MFIs often operate in the form of banks, they are subject to business taxes that are often higher than those levied for other businesses. Even though an MFI’s business tax expense is factored into the interest rate calculations by 2%, clients have to pay sales tax on their borrowings as additional fees.

2.6.5 Profits
The profit motivation of microfinance providers is vital for many reasons and it’s only logical that profits form a part of interest rate charged on microloans. The tricky part is ensuring that the returns generated are reasonable.

2.6.6 Credit Rating of Client
The credit ratings associated with individual and group clients will determine whether a risk-premium is charged on interest rates to off-set the risk of default and maintain the risk-adjusted return to investors.

2.6.7 Inflation Levels
Under the Fisher Effect, inflation erodes the equity levels of an MFI’s lender. As a result, microfinance providers need to raise nominal interest rates to ensure the real value of funds remains the same over time.

2.6.8 Policy Rate
The Policy Rate is set by the Central Banks. It is an indicative rate. It is the rate at which the Central Bank would lend to the commercial banks. Commercial banks would generally not lend below the central bank’s policy rate. It helps the commercial banks to determine how
much they should lend to the public. High policy rate would increase the rate of interest charged by the commercial banks to the public.

2.7 Causes of Defaults in Microfinance

Based on the real incidences of default mentioned above, in general, the causes of default can be divided into two categories: (i) weaknesses from the lender side, particularly in the funds administration by the MFIs; and (ii) moral hazard problem on the borrower side. Kassim et al (2009)

2.7.1 Lender Side - Weaknesses in Funds Administration: these are weaknesses relating to funds administration by the MFIs that provide the opportunities for the recipients to utilize the loans for other reasons than the original intentions. This increases the possibility of default by the recipients.

i. Absence of post-disbursement monitoring system: in the absence of a close supervision on how funds are being disbursed, recipients tend to utilize the funds for other reasons than the original purpose that the funds were released for.

ii. Lack of technical assistance given to the microfinance recipients: as mentioned, 82 percent of the recipients had no business experience before joining the microfinance program, while the rest had some basic business experience. As a result, the recipients cannot handle their business effectively without basic technical assistance being provided by the MFIs.

iii. Inexperienced field workers: the field workers who are working for the MFIs are lowly educated and lack experience. Most of them are Senior School Certificate
(SSC) (equal to Ordinary level Certificate) or Higher School Certificate (equal to Advance level Certificate) holders and are very young. As a result, they fail to deliver effectively the objectives of the MFIs to the recipients, what more to give motivations to the recipients.

iv. Burdensome immediate weekly payment system: the fixed repayment system is difficult to be met by many recipients, depending on the nature of their business projects. Also, very frequent collection schedule increases the transaction costs to collect the installments for the MFIs.

v. Lack of common accessible database of the microfinance recipients: since there is no systematic database that keeps the record of the microfinance recipients, this provides the opportunity for the recipients to apply for more than one loan from various MFIs. When the recipients are over-stretched in their financial commitments, they are more likely to default on the installment payment.

2.7.2 Borrower Side - Moral Hazard Problem: resulting from the lack of technical assistance and post-disbursement supervision, the following are the consequences which result in greater possibility of default by the loan recipients:

i. Hiding business: majority of the recipients are women and in a male-dominant society such as Bangladesh, women are normally obedient to whatever the requests of the husbands. In many cases, once the wife has secured a loan to run a particular business, the husband persuades the wife to undertake more risky business that more likely to provide higher return. Thus, lack of proper monitoring system by the MFI
could lead to recipients to undertake more risky business, thereby increasing the possibility of default by the borrower.

ii. Family member’s illness: rather than utilizing the loans through the channel that has been agreed upon, the recipients spent it for more urgent and pressing reason such as for medication of the family member. There are also cases where the focus of attention has shifted to taking care of the sick ones, resulting in the business project to be abandoned. Other than illness, funds are also sometimes being spent for other expenses such as marriage and festivities.

iii. Lack of motivations: the mindset of the poor which is more concern about meeting the basic needs does not provide them with the motivations to give out the best in conducting the business project.

iv. Over-stretched financial commitments due to multiple borrowings from MFIs: amid the increased competition among the MFIs and the absence of a common database to keep track of the microfinance recipients, many recipients borrow from more than one MFIs, resulting in the difficulty to meet the multiple payment installments.
CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section looks at the research design, target population, data sources, sampling procedures (size and technique), data collection instruments, fieldwork/ data collection and data analysis and limitations to data collection.

3.1 Research Methodology

3.1.1 Research Design

Emory (1985) did not define but reviewed a definition of research design from Kerlinger (1973). Emory re-conception of research design is that, it represents the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or programme of research. It includes an outline of what the researcher is writing on including the hypotheses and their operational implications to the final analyses of the data. This study adopted the case study strategy. Among the various research designs, case studies are frequently regarded as using both quantitative and qualitative research and a combination of both approaches (Bryman, 2004). Since Tanoah Capital point (TCP) is only one MFI out of the many in Ghana the study would use both primary and secondary data sources, it was considered to be the more appropriate for this study.
3.1.2 Data sources
The study made an extensive use of both primary and secondary sources of information from the MFI and its customers. The primary sources of data included information that was gathered from the questionnaires administered to the respondents and unstructured interviews conducted for the top management members of the MFI. The advantage of using primary data was that, they were more reliable since they came from the original sources and were collected especially for the purpose of the study. The secondary sources of data included MFI reports, brochures and manuals.

3.1.3 Population
Tanoah Capital Point as Microfinance Institution have over five thousand (5000) borrowers all over the country but Kumasi branch being the head office has over two thousand seven hundred (2700) borrowers. The study was conducted at the head office. Thus the population of this research was the Kumasi borrowers and the staff of Tanoah Capital Point was drawn from a list of staff from the Human Resource Department which came up to thirty one (31) workers. It is believed that TCP staff would have greater insight in MFI activities.

3.1.4 Sample Selection
Since the loan customers of Tanoah Capital Point Limited are scattered all over the country and all the customers could not be covered in this study, sampling techniques were mainly used to determine the sample size. According to Punch (1998), one cannot study everyone everywhere doing everything and so sampling decisions is required not only about which people to interview or which events to observe, but also about settings and processes. A systematic random sample is obtained by selecting one unit on a random basis and choosing
additional elementary units at evenly spaced intervals until the desired number of units is obtained. There were a total of two thousand seven hundred (2700) loan customers from the various operational areas provided by the Credit Department. A sample size of one hundred (100) was chosen for the research. A systematic random sampling technique was used to administer the questionnaires in all the ten operational areas where the twenty-seventh (27th) client on the list was contacted.

For the staff members, a systematic random sampling technique was used. The researcher had the names of all the staff members from the human resource department of Tanoah Capital Point (TCP). He used a systematic random sampling procedure, he decided to pick the first two names on the list and left out the third name and picked the fourth and fifth and so on till he got the twentieth (20th) person. He ended up with 20 selected members of staff. The researcher selected one hundred (100) loan customers and twenty (20) members of staff making a total of one hundred and twenty (120) of Tanoah Capital Point.

3.1.5 Data Collection Instrument

The study employed both qualitative and quantitative research approaches. The study collected data through two sets of different questionnaires as indicated in appendices 1&2, one for Tanoah Capital Point staff and the other for borrowers (beneficiaries). The questionnaires were to serve as checks and balances to ensure accuracy of responses to the questions asked. The researcher personally administered the questionnaire. Interviews and discussion were also used to solicit information relevant to the study.
The data collection process was carried out over a period of one month. Questionnaires were given to the selected staff in the head office of Tanoah Capital Point in Kumasi. Participants were given two weeks to complete the questionnaires. The questionnaire, administered captures the TCP staff demographic profiles in terms of their age, gender, education, and length of service at current position. The purpose was to find out if there was any relationship between the respondents’ demographic profile and the repayment of MFI loans.

3.1.6 Data Editing and Analysis
The raw data obtained from a research is useless unless it is transformed into information for the purpose of decision making (Emery and Couper, 2003). The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyse the data for the study. The data was edited to detect and correct, possible errors and omissions that are likely to occur, to ensure consistency across respondents.

The data was then coded; to enable the respondents to be grouped into limited number of categories. The Statistical Package for Social Sciences (SPSS) software was used for this analysis. The Data was presented in tabular form, graphical and narrative forms. In analyzing the data, descriptive statistical tools such as bar graph, pie charts were used.

3.1.7 Limitations to Data Collection
Some of the respondents saw the exercise as a waste of time for that matter they were not prepared to compromise few minutes of their precious time as it were to answer the questions.
It was also with difficulty and a lot of resources getting the questionnaire that was given to the staff back. Most of the respondents were not prepared to spend few minutes of their time to answer the questions which made it difficult for the researcher to get back the questionnaires.

3.2 Profile of Study Area- Tanoah Capital Point Limited
The study is limited to examine the effect of interest rate on loan repayment in microfinance institutions. The study is further limited to one firm namely Tanoah Capital Point Limited (A Micro Finance Company) in Adum, Kumasi in the Ashanti Region of Ghana because of the availability and accessibility of information. Tanoah Capital Point Limited (TCP) has two products, namely, the individual loan and the group loan scheme. The major focus of TCP currently is the group loans since that addresses the company mission of bridging the poverty gap using micro finance as its tool.

3.2.1 The company’s Vision
Championing a revolution in micro - financing with a view in making the industry a strategic financial partner in the golden age of business.

3.2.2 Mission
Committed to the cause of reducing poverty by way of empowering micro and small scale entrepreneurs financially, economically and socially. To see their businesses grow and to guarantee their families meaningful lives.

3.3 Key Operational Areas
The company operates in the Kumasi Metropolis, Bekwai and Obuasi Municipalities and the Ejisu-Juaben and the Sekyere East Districts in the Ashanti Region of the Republic of Ghana.
The main product types are individual lending and group lending scheme which currently serve twenty-five communities and villages in the operational areas.

3.4 Institutional Governance, Management Operations and Organisational Structure

3.4.1 Directors and Management

- **Board of Directors**

The company has a 7-member Board of Directors comprising six non-executive directors and one executive director (Managing Director). The Board is currently made up of seasoned professional bankers and renowned businessmen and public sector administrators who have accomplished significantly in their various fields of endeavour. They have the diversity of management skills and technical expertise to effectively discharge their duties as the supreme governing body of the company.

- **Management Team**

The day to day management of the Institution is carried out by a team of competent management of staff headed by the Managing Director. The Managing Director is assisted by General Manager, who supervises the various departments. In addition, there is an Administrative and Finance Manager responsible for reviewing the effectiveness and adequacy of the Institution accounts and the administrative functions. The Operations Manager is responsible for strategy and business development. The Credit Manager is responsible for credit and product development. These departmental heads form the management team.
• **Human Capital**

The Institution’s total head count is 31. This is made up of four (4) managers as management team (1) senior credit officer, 2 account officers, 1 administrative secretary, 1 cashier, 19 credit officers and 3 administrative assistant.

**3.4.2 Organisational Structure**

The organizational structure of TCP is kept simple and its size purposely kept small. The Board is at the apex of the organizational structure. The CEO reports directly to the Board. However, the Institution has various sub departments.
CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

This chapter looks at the presentation, discussion and analysis of data collected from the field. Research findings constitute very important stages of the research exercise (Yin 2001). It is an integral part of the survey and it is affected by its overall quality. According to Twumasi (1986), the findings of the study and discussions may be integrated and presented together or they may be presented separately. The findings are normally reported with respect to furnishing evidence for each research questions asked to guide the study. This study presents the results of the study and the findings. Descriptive statistics were used in presenting the data. Frequencies, percentages and charts were employed to explain certain points where necessary.

4.1 Demographic Background of Respondents (Staff)

Figure 1 Gender of Respondents

Source: Field Data (May 2011)
4.1.1 Gender of Respondents
Twenty (20) respondents (members of staff) were interviewed for the study; they comprised of 5 males and 15 females. The researcher gathered from further interviews that because the mission of the Institution is to serve mostly women, an unwritten policy of the Institution is to employ a lot of women.

Figure 2  Age distribution of respondents

Source: Field Data (May 2011)

4.1.2 Age Distribution of Respondents
The age distribution of the respondents is also depicted in Figure 2. The age group of the respondents fell within the 18-30 years and 31-45 years. The model age group was 18-30 years making 70% of the respondents; and 30% of the remaining fell on 31-45 years of the respondents. According to figure 2, the higher representation of the age group 18-30 years points to the fact that majority of the respondents still have long years to work for the organization.
4.1.3 Educational Attainment of Respondents
The analysis of this variable revealed that the majority of respondents (70%) have had tertiary education. 15% of respondents also had secondary education whereas 10% had other form of education including professional training. From the interviews conducted most of the staff had business and management skills hence at monthly performance reviews they were able to contribute effectively to issues especially those related to interest rate which went a long way in determining the interest rate of the company.
4.1.4 Grade/Position of Respondents
This variable was analyzed to reveal the position being held by the respondents in their various departments. It revealed that most of the respondents (60%) were credit officers while (20%) constitute the supervisors and the remaining (20%) were shared between Managers and Administrative Staff equally. From the interviews the researcher conducted it came to light that even though the majority of the staff were credit officers their views were always sought in the determination of interest rates since they were always on the field.

Table 1 Number of Years in Employment

<table>
<thead>
<tr>
<th>No of years with TCP</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>1 year</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>2 years</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>3 years</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>4 years and above</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.1.5 Number of Years Respondents Have Worked for TCP
The Table above depicts ranges of years within which the respondents had worked with TCP. Out of the 20 respondents contacted 3 had worked with TCP for 4 years and above while 8 of them had worked with TCP for 3 years. Another 4 of the respondents had also worked for less than one year. The number of respondents who had worked with TCP for two years and above constituted 55%, (13 respondents) with majority of them having worked with TCP for at least three years. This showed that most of the staff had gained considerable experience on
the job with respect to interest rates and its impact on loan repayment. This was evident in their contribution at monthly performance review meetings from the interviews the researcher had with them.

4.2 Effect of Interest

Table 2 Interest Rate and Loan Repayment

<table>
<thead>
<tr>
<th>Details</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate of TCP has an effect on repayment of loan</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>35%</td>
<td>35%</td>
<td>100%</td>
</tr>
<tr>
<td>Interest rate of TCP increases the burden on loan repayment</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
<td>50%</td>
<td>30%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.2.1 Interest Rate and Loan repayment

Staff generally agreed that Interest rates indeed had an effect on loan repayment. When they were asked to indicate whether or not they agree to the fact that TCP interest rate has an effect on repayment of loans, 70% agreed to the fact that interest rates had an effect on loan repayment. 5% of them strongly disagreed while 10% disagreed and 15% were uncertain as whether or not MFI interest rate has a significant effect on loan repayment. The respondents generally agreed to the statement that TCP interest rate increases the burden on loan repayment. Here 80% of them agreed with this assertion. It was only 15% of the respondents either disagreed or strongly disagreed seen from table 2. It is thus be deduced that for the MFI to ensure constant repayments then it has to set interest rates that will encourage clients to repay their loan with ease.
Table 3 Interest Rate and Default Rate

<table>
<thead>
<tr>
<th>Details</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCP interest rate scares borrowers</td>
<td>35%</td>
<td>30%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>100%</td>
</tr>
<tr>
<td>TCP interest rate causes loan default and delinquency</td>
<td>25%</td>
<td>45%</td>
<td>10%</td>
<td>20%</td>
<td>0</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.2.2 Interest Rate and Default Rate

Respondents debunked the statement that TCP interest rate causes loan default and delinquency. 80% of respondents agreed that TCP interest rate does not cause loan default while 20% agreed. 10% of them were however not certain. It was gathered from follow up interviews the researcher conducted that the mode of loan repayment reduces the risk of default. On the issue of whether the clients are reluctant in taking loans from the company because of the interest rate charged 65% of respondents said they were not scared of taking loans from the company while 25% said they were. However during interviews it came out that the clients were not scared because the existing traditional financial institutions were reluctant to lend to them because they perceived them as high risk and hence they had no other alternative than to fall on the MFIs for the needed assistance.

Table 4 Interest Rate and Borrower Relationship

<table>
<thead>
<tr>
<th>Details</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCP interest rate is a source of litigation between borrower and the MFI</td>
<td>15%</td>
<td>25%</td>
<td>45%</td>
<td>15</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>TCP interest rate has made it difficult to continue business with borrowers.</td>
<td>40%</td>
<td>35%</td>
<td>10%</td>
<td>10%</td>
<td>5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)
4.2.3 Interest Rate and Borrower Relationship

Also, 35% of the respondents disagreed that the interest rate charged by the Institution is a source of litigation between the customers and the Institution while 45% were uncertain but 15% agreed. Further interviews revealed that for the 45% who were uncertain, they were not sure customer disagreement with the Institution could be linked directly to the interest rate. Again when respondents were asked whether or not TCP interest rate has made it difficult to continue business with borrowers, more than 70% of the respondents disagreed. 15% of them however answered in the affirmative. The reason that could be assigned to this is that TCP would not have been in business if the interest rate made it difficult to continue business with customers. According to Shankar (2006), microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training and social capital, achieved through local organization building, enables people to move out of poverty.

Otero, (1999) testifies that microfinance provides material capital to a poor person, the sense of dignity is strengthened and this can help to empower the person to participate in the economy and society. The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.
Table 5 Interest Rate Justification

<table>
<thead>
<tr>
<th>Details</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCP interest rate is justified by high cost of borrowing and transaction cost.</td>
<td>25%</td>
<td>15%</td>
<td>5</td>
<td>45%</td>
<td>10%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.2.4 Interest Rate Justification

55% of the respondents justified the interest rate charged by the respondents while 30% disagreed (Table 5). Most respondents opined from further interviews that since the Institution borrow to on-lend and the fact that generally the cost of funds was high the interest rate charged by the Institution was justified. Again, since microfinance deals with those in the informal sector, transaction cost is high thus the interest rate charged by the institution. But 30% of the respondents indicated that the interest rate charged was not justified.
4.2 The Effect of Other Factors on Loan Repayment

Table 6 Effect of Other Factors on MFI Loan Repayment

<table>
<thead>
<tr>
<th>Details</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The loan amount affects loan repayment more than the interest rate</td>
<td>25%</td>
<td>35%</td>
<td>0</td>
<td>35%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>The maturity period is the most important influence on loan repayment than loan interest rate</td>
<td>20%</td>
<td>15%</td>
<td>20%</td>
<td>40%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>TCP loan term is too short that it affects loan repayment more than the interest rate</td>
<td>25%</td>
<td>10%</td>
<td>5%</td>
<td>40%</td>
<td>20%</td>
<td>100%</td>
</tr>
<tr>
<td>The fee and charges of TCP increases the burden on loan repayment</td>
<td>15%</td>
<td>20%</td>
<td>15%</td>
<td>50%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>The loan repayment frequency impacts on the loan repayment than the interest rate</td>
<td>20%</td>
<td>30%</td>
<td>20%</td>
<td>15%</td>
<td>15%</td>
<td>100%</td>
</tr>
<tr>
<td>Non collateralized loans of TCP affects repayment of loan and not interest rate</td>
<td>25%</td>
<td>25%</td>
<td>15%</td>
<td>25%</td>
<td>10%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)
From table 6, 60% of the respondents disagreed to the assertion that the loan amount affects loan repayment more than the interest rate while 35% agreed that that the loan amount affects repayment. On the issue of maturity period and default 45% of the respondents also agreed to the fact that the maturity period is the most important factor that influenced MFI loan repayment, while 20% of them were not certain, 35% of them disagreed.

Meanwhile, 60% of the respondents generally agreed in the following proportions: strongly agree – 20% and agreed – 40%, to the fact that TCP loan term is too short and that it affects loan repayment more than the interest rate. Furthermore, the loan repayment frequency impacts on the loan repayment than the interest rate, about 50% of the respondents either
disagree or strongly disagree. Finally, the non-collateralized loans of TCP affects repayment of loans and not the interest rate, about half of the respondents disagreed in the following proportions; strongly disagree 25% and disagree 25%.

4.3 Policy Measures to Improve Loan Repayment

Table 7 Appropriate Policy Measure to Improve the loan Repayment

<table>
<thead>
<tr>
<th>Details</th>
<th>Sometimes</th>
<th>Always</th>
<th>Not at all</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCP interest rate should be negotiable to make repayment flexible</td>
<td>50%</td>
<td>25%</td>
<td>25%</td>
<td>100%</td>
</tr>
<tr>
<td>Borrowers should be properly screened before loans are given</td>
<td>10%</td>
<td>85%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>There should be increased monitoring of loan to avoid funds diversion</td>
<td>10%</td>
<td>90%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>MFIs should give loans that customers can service.</td>
<td>20%</td>
<td>80%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>MFI loans should be given to group borrowers, so that repayment could be monitored</td>
<td>70%</td>
<td>30%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>MFI loans must be secured by guarantors who will be responsible to repay the loan when there is default</td>
<td>20%</td>
<td>80%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>There should be micro insurance for TCP loan customers to cushion TCP in case of default</td>
<td>25%</td>
<td>75%</td>
<td>0</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)
When respondents were asked to indicate whether TCP interest rate should sometimes or always be negotiated to make repayment flexible, about 50% of them said sometimes while 25% said always and 25% said not at all. About 85% of the respondents said borrowers should always be screened before loans are given. Again 90% of them said TCP management should increase monitoring of loan to avoid fund diversion which has been one of the causes of loan default according to Kassim et al (2009).

Moreover, about 80% of the respondents suggested that TCP for that matter MFI should give loans that customers can service, and it should be give to a group so that repayment can be monitored.
4.5 Demographic Background of Respondents (Loan customers)

Figure 7 Gender of Loan Customers

From figure 7, gender data of loan customers of Tanoah Capital Point (TCP) indicated that 18% are men whiles 82% are women. This is in line with the company’s vision to target more women folk and women groups.

Table 8 Age Distribution of Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-30 years</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>31-45 years</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>46-59 years</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>60 years and above</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)
4.5.2 Age Distribution
One hundred (100) respondents were interviewed for the study; they comprised of 18 males and 82 females. The age distribution of the respondents is also depicted in table 8. Majority of the respondents fell within the 31-45 years and 46-59 years. The modal age group was 31-45 years making 40% of the respondent; this was followed by the 46-59 years group scoring 30% of the respondents. The 18-30 years group constitutes 24% of the respondents; the 60 years and above scored 6% of the total respondents. According to Table 10 above the higher representation of 64% of age group 18-45, this is representative of the active working population in the country.

4.5.3 Size of Respondents’ Business
The size of the loan customers’ business was also considered in this research. From table 9, The researcher found out that 12% of the loan customers had a medium scale enterprise, 56% of them had micro enterprise and 32% of them had small scale enterprise as shown below. This is an indication that Tanoah Capital Point (TCP) serves all levels of business groups and especially the micro scale enterprises which represents 56% of the respondents.

Table 9 Size of Business

<table>
<thead>
<tr>
<th>Size of Respondents’ Business</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Scale Enterprise</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Medium Scale Enterprise</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Micro Enterprise</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)
4.5.4 Size of Respondents’ Working Capital
The research to consider the size of the working capital of the loan customers. From table 10 and figure 8, 46% of the respondents’ working capital ranges from GHS100-1000 which indicates that Tanoah Capital Point is established to serve medium and micro businesses, while 24% of them had a working capital of GHS1001-3000. Another 24% of them also had GHS3001-5000 and only 6% of them had a working capital of GHS 5001 and above.

Table 10 Size of Working Capital

<table>
<thead>
<tr>
<th>Size of Respondents Working Capital</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghs100-1000</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Ghs1001-3000</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Ghs3001-5000</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Ghs5001 and above</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

Figure 8: Size of Respondents Working Capital

Source: Field Data (May 2011)
4.6 The Effect of TCP Interest Rate on Repayment of Loan

This section tries to find out from loan customers whether or not MFI interest rate has an effect on their repayment of loans.

Table 11 Justification for Interest Rate

<table>
<thead>
<tr>
<th>Details</th>
<th>Sometimes</th>
<th>Always</th>
<th>Not at all</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you think low interest rate will make repayment of loan easier for borrowers?</td>
<td>40%</td>
<td>52%</td>
<td>8%</td>
<td>100%</td>
</tr>
<tr>
<td>Do you think TCP is justified in charging such interest rate in relation to the services they render?</td>
<td>24%</td>
<td>70%</td>
<td>6%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.6.1 Low Interest Rate and the Ease of Loan Repayment

The researcher wanted to find out from loan customers if they think low interest rate will make it easier for them to make good of their loans, in table 11 above, 40% of them said sometimes, while 52% said always and 8% also said not at all. This indicates that loan customers would appreciate the fact that low interest rate would have encouraged loan customers to repay their loans with ease. 70% of the loan customers thought though TCP was justified in charging high interest rate in relation to the services offered. Customers indicated from further interviews that they would appreciate further reduction.

4.6.2 Interest Rate and Loan Repayment

From table 11 below, 64% of the loan customers said that TCP high interest rate does not scare them at all, while 58% of them said the high interest rate of TCP does not cause borrowers to default their loan commitment an assertion that was also confirmed by staff. For them accessibility of loans was paramount.
Table 12 Interest Rate and Loan Repayment

<table>
<thead>
<tr>
<th>Details</th>
<th>Sometimes</th>
<th>Always</th>
<th>Not at all</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does interest rate of TCP increases the burden on loan repayment?</td>
<td>20%</td>
<td>22%</td>
<td>58%</td>
<td>100%</td>
</tr>
<tr>
<td>Does TCP interest rate scare borrowers as a result of repayment problems?</td>
<td>20%</td>
<td>16%</td>
<td>64%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.6.3 Interest Rate and Loan Default
The researcher gathered from the table below that 62% of respondents said the interest rate does not cause them to default on loan repayment whiles 12% indicated that the interest rate always cause default and 14% mentioned that the interest rate makes it difficult to continue business with the lenders. The researcher deduced that for the customers’, accessibility and availability of funds was the most important issue. This is also corroborated by the responses of the staff.

Table 13 Interest Rate, Loan default and Customer Loyalty

<table>
<thead>
<tr>
<th>Details</th>
<th>Sometimes</th>
<th>Always</th>
<th>Not at all</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does TCP interest rate cause borrowers to default on loan?</td>
<td>26%</td>
<td>12%</td>
<td>62%</td>
<td>100%</td>
</tr>
<tr>
<td>The MFI interest rate makes it difficult to continue business with lenders</td>
<td>22%</td>
<td>14%</td>
<td>64%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Data (May 2011)

4.7 To Determine the Effects of Other Factors on TCP Loan Repayment
This section also tries to find out from respondents the effects of other factors apart from interest rate on TCP loan repayment as shown in table 14 and figure 9 below:
When respondents were asked to indicate whether or not the loan amount affects loan repayment more than the interest rate, 6% of them strongly agreed while 24% agreed. 20% of them strongly disagreed while 42% disagreed and 8% were uncertain, this indicates that 62%
of loan customers disagree with this statement. The respondents agreed to the statement that when loan repayment term is too short for borrowers to service their loan, it increases the burden on loan repayment. Here 10% of loan customers strongly agreed and 46% agreed with this assertion, which brought about a total of 56%. 32% of the respondents either disagreed or strongly disagreed in the following proportions: strongly disagree – 14% and agreed – 18% (Table 14, Figure 9)

Respondents refuted the statement that non collateralized loan of TCP affects repayment of loan and not the interest rate (Table 14), the following results were obtained: 20% of them strongly disagreed, 32% disagreed, with 30% strongly agreed and agreed. 18% of them were however not certain. This was disclosed in an interview with loan customers of TCP. Most of the respondents mentioned from follow up interviews that approved loans took a long time to be disbursed. This adversely affects their businesses because plans and preparation they put in place for the money are put in disarray. This subsequently affects loan repayment.

**Figure 9: Effects of other factors on TCP Loan Repayment**

![Figure 9: Effects of other factors on TCP Loan Repayment](image)

**Source:** Field Data (May 2011)
### Table 14 Other Factors Influencing Loan Repayment

<table>
<thead>
<tr>
<th>Details</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The loan amount affects loan repayment more than the interest rate</td>
<td>20%</td>
<td>42%</td>
<td>8%</td>
<td>24%</td>
<td>6%</td>
<td>100%</td>
</tr>
<tr>
<td>The loan term is too short for borrowers to repay loan on schedule</td>
<td>14%</td>
<td>18%</td>
<td>12%</td>
<td>46%</td>
<td>10%</td>
<td>100%</td>
</tr>
<tr>
<td>The repayment frequency impacts on the loan repayment more than the interest rate</td>
<td>14%</td>
<td>34%</td>
<td>8%</td>
<td>36%</td>
<td>8%</td>
<td>100%</td>
</tr>
<tr>
<td>Non collateralized loans of TCP affects repayment of loans and not the interest rate</td>
<td>20%</td>
<td>32%</td>
<td>18%</td>
<td>16%</td>
<td>14%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Field Data (May 2011)*

### 4.8 Appropriate Policy Measure To Improve the Repayment of the MFI loans

#### Table 15 Policy Measures To Improve Loan Repayment

<table>
<thead>
<tr>
<th>Details</th>
<th>Sometimes</th>
<th>Always</th>
<th>Not at all</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.TCP interest rate should be negotiable to make repayment flexible</td>
<td>48%</td>
<td>42%</td>
<td>10%</td>
<td>100%</td>
</tr>
<tr>
<td>2. There should be increased monitoring of loan to avoid funds diversion</td>
<td>18%</td>
<td>82%</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>3. TCP should give loans that customers can service</td>
<td>18%</td>
<td>70%</td>
<td>12%</td>
<td>100%</td>
</tr>
<tr>
<td>4. TCP loans must be secured by guarantors who will be responsible to repay the loan when there is default</td>
<td>48%</td>
<td>42%</td>
<td>10%</td>
<td>100%</td>
</tr>
<tr>
<td>5. There should be micro insurance for TCP loan customers to protect them in case of default</td>
<td>34%</td>
<td>56%</td>
<td>10%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Field Data (May 2011)*
This section tries to find out from respondents whether or not there are appropriate measures to improve the repayment of MFI loans as shown in table 15 above:

When respondents were asked to indicate whether TCP interest rate should sometimes or always be negotiated to make repayment flexible, about 50% of them said sometimes while 25% said always and 25% said not at all (Table 15, Figure 10). About 85% of the respondents said borrowers should always be screened before loans are given. Again 90% of them said TCP management should increase monitoring of loan to avoid fund diversion which has been one of the causes of loan default according to Kassim et al (2009).
Moreover, about 80% of the respondents suggested that TCP for that matter MFI should give loans that customers can service, and it should be given to a group so that repayment can be monitored. According to customers, because most of them access group loan products there is the need for group members to be properly screened by credit officers to know their capacity so that the Institution can give a loan amount that customers can manage.

Again, respondents mentioned that, to enhance loan repayment loan amount should be disbursed on time.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The previous chapters concentrated on the introductory aspect of the study which dealt into the problem statement, the objectives of the study, significance of the study, the scope and the limitations of the study. It also reviewed the relevant literature to the study. Furthermore, the methodology and the profile of the study area were also discussed. Finally, the data gathered through the use of questionnaire and interviews were also analysed and discussed which threw more light on the possible solutions to the questions raised at the introductory chapter. The focus of this chapter is to summarise the findings analysed from the data gathered through the questionnaire and interviews in chapter four. It also discusses the researchers recommendations which were the possible solutions to the problems identified and the conclusion to the study.

5.1 Summary of Findings

5.1.1 Findings on Appraising the Effect of MFI Interest Rate on Repayment Of Loans

On the effect of MFI interest rate on repayment of loans:

The MFI staff indicated that the Institution’s TCP interest rate increases the burden on loan repayment. However, they mentioned that interest rate did not scare borrowers as a result of repayment problems.

Customers confirmed that low interest rate would make repayment of loans easier for them to repay their loans. Majority of the customers said sometimes TCP was justified in charging
high interest rate in relation to the services the Institution renders. However, respondents said sometimes TCP interest rate caused borrowers o default on loans

5.1.2 Findings on the Effect of Other Factors on TCP Loan Repayment
Majority of the staff confirmed that the loan amount did not affect loan repayment more than the interest rate. The research revealed that that short loan terms affect repayment more than the interest rate. Also, fees and charges of TCP also increase the burden on loan repayment. Moreover, staff respondents disagreed that non collateralized loan of TCP affects repayment of loans.
Loan customers disagreed that loan amount affects loan repayment more than the interest rate, but agreed that short term loan terms schedule affect repayment.

5.1.3 Findings on Measures Put in Place to Enhance Repayment of the MFI Loans
Findings revealed that:

There were a number of measure measures available to management of the MFI to enhance repayment of loans. Firstly, borrowers should be properly screened before loans are given. Again, TCP staff should increased monitoring of loans to avoid funds diversion and loans should be given to group borrowers, so that repayment could be properly monitored. Also, approved loans should be disbursed on time. Lastly, on the mode of loan repayment, the day, time and season should be considered.

5.2 Conclusion
The research revealed that interest rate plays a role in loan repayment and customer relationship with microfinance institutions. Moral hazard has been one of the factors which
cause loan default where loans are not committed to the very purposes for which the loans were given.

The loan amount does not affect loan repayment more than the interest rate. The research further revealed that that too short loan terms affect repayment more than the interest rate, fees and charges of TCP also increase the burden on loan repayment. Moreover, staff respondents disagreed that non collateralized loan of TCP affects repayment of loans. The loan customers’ respondents disagreed that loan amount affects loan repayment more than the interest rate, but agreed that short term loan terms schedule affect repayment.

Majority of the members of staff confirmed that TCP interest rate increases the burden on loan repayment. A number of the staff respondents agreed that interest rate has effect on loan repayment. Again they disagreed that interest rate scares borrowers as a results of repayment problems. This is because unlike the traditional banks, customers are able to access funds with ease from MFIs.

Loan customers indicated that low interest rate would make repayment of loans easier for borrowers. The research also revealed that sometimes TCP is justified in charging high interest rate in relation to the services they render, according to customers. Again, the research revealed that sometimes TCP interest rate causes borrowers to default on loans. The research also brought to the fore how delays in the disbursement of approved loans affected loan repayment.

In conclusion therefore, it is worthy to note that, the MFI high interest rate is not the only variable that affects loan repayment, but there are other factors such as the loan term, credit
appraisal and monitoring. These are very key and if the company should place emphasis on them, it would go a long way to increase its profitability and help to achieve its vision and mission.

5.3 Recommendations
Having looked at the effect of interest on loan repayment in microfinance institution at Tanoah Capital Point (TCP), the following recommendations are made:

1. Though availability and accessibility of loanable funds very important, the Institution could consider lowering interest rate to enhance loan repayment.

2. The Institution could consider the establishment of micro insurance to protect customers and the Institution in times default.

3. There should be increased monitoring of loan to ensure that funds are not diverted, loans are used for the intended purpose and repayment made on time. This activity will require a lot of logistical support from the Institution.

4. An important feature of microfinance is the concept of group guarantee. As respondents agreed, there should be increased training and education to ensure that applicants are properly screened before they can access the facility. This will help know the capacity of the applicants and the loan amount they can manage.

5. The Central Bank and Policy makers should put in place the necessary control mechanisms to protect microfinance institutions and customers on the cost of doing
business in relation to the interest rate charged by the banks. The Central Bank could progressively reduce the policy rate thereby reducing the cost of funds.
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APPENDIX 1

QUESTIONNAIRE FOR TANOAH CAPITAL POINT STAFF/ WORKERS

Dear Sir/Madam

This is the study being conducted to find out the effect of interest on loan repayment in Microfinance institutions in Ghana a case study of Tanoah Capital Point (TCP). This is in partial fulfillment for the award of a C. E.M.B.A. Degree. I therefore appeal to you to answer the following questions as candidly as possible. I assure you that all your responses are only meant for academic purposes and the confidentially of your responses are assured.

Thank you in advance for your cooperation.

Please tell us about yourself:

Background of Respondents

1. SEX:
   a/ Male [ ]       b/ Female [ ]

2. AGE:
   a/ 18 - 30 Years[ ] b/ 31-45years[ ] c/ 46-59years[ ] d/ 60years and above [ ]

3. Which of the following best describes your level of education?

   a/ University[ ] b/ Diploma[ ] c/ Professional Training[ ] d/Secondary Education
e/Basic Education[ ]
4. Marital Status

a/ Married [ ]  b/ Single [ ]  c/ Divorced  d/Widowed

5. What is your position in the organization?

a/ Manager [ ]  b/ Supervisor [ ]  c/ Credit officer [ ]  d/ Administrative Officer[ ]  e/Others [ ]

6. How long have you worked with this Organization?

a/ Less than 1 year [ ]  b/ 1 year [ ]  c/ 2 years[ ]  d/ 3 years[ ]  e/ 4 years and above[ ]

7. How long have you been in your present position?

a/ Less than 1 year [ ]  b/ 1 year [ ]  c/ 2 years[ ]  d/ 3 years[ ]  e/ 4 years and above[ ]

DIRECTIONS: here are some statements with which you may agree or disagree. Using the 1-5 scale below, indicate your opinion of each item by marking with an X the appropriate number in the chosen block following that item. Please be open and honest in your responding.

1 = Strongly Disagree (If you believe the statement almost never applies to the company)

2 = Disagree (If you believe the statement does not really apply to the company)

3 = neither Agree or Disagree (Not sure if the statement applies or not)

4 = Agree (The statement applies to the company in some degree)

5 = Strongly Agree (The statement is highly applicable to the company)
To Appraise the Effect of MFI Interest Rate on Repayment of Loans

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<tr>
<td>8</td>
<td>Interest rate of TCP has an effect on repayment of loan.</td>
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<td>9</td>
<td>Interest rate of TCP increases the burden on loan repayment.</td>
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<td>10</td>
<td>TCP interest rate scares borrowers as a result of repayment problems.</td>
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<td>11</td>
<td>TCP interest rate causes loan default and delinquency.</td>
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<td>12</td>
<td>TCP interest rate is a source of litigation between borrowers and the MFI.</td>
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<td>13</td>
<td>TCP interest rate has made it difficult to continue business with borrowers.</td>
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<td>14</td>
<td>TCP interest rate is justified by high cost of borrowing.</td>
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<td>15</td>
<td>TCP interest rate is borne out of the default rate and the transaction cost.</td>
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To determine the effects of other factors on MFI loan repayment

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<td>16</td>
<td>The loan amount affects loan repayment more than the interest rate.</td>
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<td>17</td>
<td>The maturity period is the most important influence on loan repayment than the interest rate.</td>
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<td>18</td>
<td>TCP loan term is too short that it affects loan repayment more than the interest rate.</td>
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<td>19</td>
<td>The fees and charges of TCP increase the burden on loan repayment?</td>
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<tr>
<td>20</td>
<td>The loan repayment frequency impacts on the loan repayment than the interest rate.</td>
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<td>21</td>
<td>None collateralized loans of TCP affects repayment of loans and not the interest rate.</td>
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**Appropriate Policy Measure That Will Improve the Repayment of MFI Loans**

22. TCP interest rate should be negotiable to make repayment flexible.

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]

23. Borrowers should be properly screened before loans are given?

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]

24. There should be increased monitoring of loan to avoid funds diversion.

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]

25. TCP should give loans that customers can service.

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]

26. TCP loans should be given to group borrowers, so that repayment could be monitored

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]

27. TCP loans must be secured by guarantors who will be responsible to repay the loan when there is default

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]

38. There should be micro insurance for TCP loan customers to cushion TCP in case of default.

   a/ Sometimes [ ]  
   b/ Always [ ]  
   c/ Not at all [ ]
APPENDIX 2

QUESTIONNAIRE FOR TANOAH CAPITAL POINT LOAN CUSTOMERS

Dear Sir/Madam

This is the study being conducted to find out the Effect of interest on loan repayment in Microfinance institutions in Ghana a case study of Tanoah Capital Point (TCP). This is in partial fulfillment for the award of a C.E.M.B.A. Degree. I therefore appeal to you to answer the following questions as candidly as possible. I assure you that all your responses are only meant for academic purposes and the confidentiality of your responses are assured.

DIRECTIONS: here are some statements with which you may agree or disagree. Using the 1-5 scale below, indicate your opinion of each item by marking with an X the appropriate number in the chosen block following that item. Please be open and honest in your responding.

1 = Strongly Disagree (If you believe the statement almost never applies to the company)

2 = Disagree (If you believe the statement does not really apply to the company)

3 = neither Agree or Disagree (Not sure if the statement applies or not)

4 = Agree (The statement applies to the company in some degree)

5= Strongly Agree (The statement is highly applicable to the company)

Thank you in advance for your cooperation.
Please tell us about yourself:

1. SEX:
   a/ Male [ ]   b/ Female [ ]

2. AGE:
   a/ 18 - 30 Years[ ]   b/ 31-45 years[ ]   c/ 46-59 years[ ]   d/ 60 years and above[ ]

3. Which of the following best describes your level of education?
   a/ Tertiary [ ]   b/ Professional Training [ ]   c/ Secondary Education [ ]   
   d/ Middle School/ Basic Education [ ]   e/ No formal education [ ]

4. Marital Status
   a/ Married [ ]   b/ Single [ ]   c/ Divorced   d/ Widowed

5. How long have you worked with Tanoah Capital Point Ltd?
   a/ less than 1 year[ ]   b/ 1 year[ ]   c/ 2 years[ ]   d/ 3 years[ ]   e/ 4 years and above[ ]

6. What is the size of your business?
   a/ Small Scale Enterprise[ ]   b/ Medium Scale Enterprise[ ]   c/ Micro Enterprise

7. What is the size of your working capital?
   a/ GHS100.00 - 1000.00   b/ GHS1001.00 - 3000.00   c/ 3001 - 5000   d/ above GHS5001
To Appraise The Effect Of MFI Interest Rate On Repayment Of Loans.

8. Do you think low interest rate will make repayment of loans easier for borrowers?
   a/ Sometimes [  ]   b/ Always [  ]   c/ Not at all [  ]

9. Do you think TCP is justified in charging such interest rate in relation to the services they render?
   a/ Sometimes [  ]   b/ Always [  ]   c/ Not at all [  ]

10. Does interest rate of TCP increase the burden on loan repayment?
    a/ Sometimes [  ]   b/ Always [  ]   c/ Not at all [  ]

11. Does TCP interest rate scare borrowers as a result of repayment problems?
    a/ Sometimes [  ]   b/ Always [  ]   c/ Not at all [  ]

12. Does TCP interest rate cause borrowers to default on loan?
    a/ Sometimes [  ]   b/ Always [  ]   c/ Not at all [  ]

13. The TCP interest rate makes it difficult to continue business with lenders?
    a/ Sometimes [  ]   b/ Always [  ]   c/ Not at all [  ]

To determine the effects of other factors on TCP loan repayment

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<tr>
<td><strong>15</strong></td>
<td>The Loan term is too short for borrowers to repay loan on schedule.</td>
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<tr>
<td><strong>16</strong></td>
<td>The loan repayment frequency impacts on the loan repayment more than the interest rate.</td>
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</table>
Non-collateralised loans of TCP affect repayment of loans and not the interest rate.

**Appropriate Policy Measure That Will Improve the Repayment of MFI Loans**

18. TCP interest rate should be negotiable to make repayment flexible.

a/ Sometimes [  ]  

b/ Always [  ]

c/ Not at all [  ]

19. There should be increased monitoring of loan to avoid funds diversion.

a/ Sometimes [  ]

b/ Always [  ]

c/ Not at all [  ]

20. TCP should give loans that customers can service.

a/ Sometimes [  ]

b/ Always [  ]

c/ Not at all [  ]

21. TCP loans must be secured by guarantors who will be responsible to repay the loan when there is default.

a/ Sometimes [  ]

b/ Always [  ]

c/ Not at all [  ]

22. There should be micro insurance for TCP loan customers to protect them in case of default.

a/ Sometimes [  ]

b/ Always [  ]

c/ Not at all [  ]