Kwame Nkrumah University of Science and Technology (KNUST)

FACTORS THAT ENHANCE THE SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN KUMASI: A CASE STUDY OF DWADIFO ADANFO AND NATIONWIDE MICROFINANCE INSTITUTIONS IN KUMASI

By

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has 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

To my husband Francis Gyan Nwiah, I dedicate this work and thank God for using you as a unique tool in putting my life to test, thanks and am grateful.

To my daughter Norah Nyameboame Nwiah you have been helpful through your time of conception through to delivery. May God be your source of strengths throughout your life.

To my daddies Godson K. Anglate and Lawyer Egblorgbe Anaglate and Mummies Dora Mawushi Gokah and Mrs Victoria Anaglate I say special thanks to you all, God bless you.

And finally to all my siblings i say thank you and am proud of you.

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ABSTRACT

This study sought to assess the factors that enhance the sustainability of microfinance institutions in the Kumasi Metropolis. The study was guided by the objectives of finding out the strategies in place that enhance the survival chances of microfinance institutions, mobile banking and savings as well as the management-employee relationship that existed within these institutions and their implication for sustainability. The study used a case study design, selecting two microfinance institutions in Kumasi. The purposive sampling method was used to select two managers one from each of the institutions for the study. The study found that these institutions had other forms of income apart from the traditional lending activities and also the use of mobile bankers serves to induce clients to save. Management-employee relationship was also found to influence sustainability. Based on what this study found, recommendations such as the training of mobile bankers and maintaining cordial relationships between clients and employees among other were made.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of credit has a long history and can be traced back to ancient times. It gained importance in Europe after the 2^{nd} world war. In the USA, credit extension was with high interest rates which made people not to appreciate borrowing. It was only during the economic boom of 1885 that people accepted credit (Ditcher, 2003). Microfinance has been accepted globally as a tool for poverty alleviation and financial inclusion.

Access to loans has been considered globally as one way of reducing poverty in developing economies in Africa. Making credit accessible to the poor has been considered as risky and unprofitable due to the costs involved contract, enforcement and screening. In the recent years past, financial institutions have come up with innovative ways of loaning to the poor which otherwise was considered a failure (Mimouni et al., 2012). Microfinance institutions are known to serve the poor in the economy through micro credit for business start-ups or expansion of already existing business.

To wit, the influx of Micro Finance Institutions may be due to the profitability of the venture with financial sustainability built into the organization as this serves to make the organization survive to serve its clients. Thus, a necessary considered long term goal of micro finance institutions is financial sustainability. These institutions need to be self-sustaining in order to achieve and expand outreach in serving the poor. According to Mimouni et al. (2012) there are about 10,000 microfinance institutions globally and hundred million small entrepreneurs.

The whole thought of financial sustainability reveals how crucial micro finance institutions have operate without external aid and directives. They are to make money while helping the poor. With this, the strong financial and profit oriented micro finance institution will be able to withstand the current economic tides of uncertainty. Those whom are highly commercial and manage portfolio correctly will survive.

In banking parlance, if a microfinance institution is able to operate with its proceeds from loans and is able to cover its costs of operation with such proceeds it is considered sustainable (Sharma & Nepal, 1997). This meaning makes clear the ―*accounting approach*‖ to financial sustainability. Sharma and Nepal (1997) accepts this approach into an approach he called ―*integrated approach*‖ which should consider among other indicators, obtaining credit to the prevailing market rate.

1.2 Problem Statement

According to a study by Aveh et al (2013) on success of MFIs in Ghana, Success or performance of microfinance are those things that enhance the financial performance and outreach of the institutions. He made mention of the following prerequisites such as making more clients, processing loans in effective and efficient manner, better staff remuneration, larger outreach and effective loan recovery among others, not forgetting staff turnover.

In 1980s, Ghana underwent some financial liberalization directives which together with laxed environmental regulations brought about enormous growth in the microfinance institutions in the country. Microfinance institutions are very crucial with concerns of credit development in developing economies (Aryeetey & Gockel, 1991). However, the question being asked is the extent to which these MFIs are sustainable in their operations and the factors that are helping these institutions remain in business.

Even though recent studies (Lelart, 2006) have shown that financing microenterprises can be financially sustainable as well as socially beneficial, mainstream commercial banks, particularly in Ghana, have until recently been absent from micro financing. The simple question is why are the commercial banks now joining in micro financing? What are the success factors serving as a pull mechanism for the commercial banks? Some microfinance institutions have survived and performed so much that they have increase their scope of operations. The problem of this study was to investigate the factors enhancing the sustainability of these microfinance institutions. It sought to find out what these institutions were doing that is making them perform and to arrive at solutions and ways of keeping the long term life of microfinance institutions.

1.3 Objectives of the Study

This study had as its general objectives to examine the factors that enhanced the sustainability of Microfinance Institutions in Kumasi in the Ashanti Region of Ghana.

Specifically, the study aimed at the following;

1. to unearth the best strategies in keeping Microfinance institutions in competition.
2. to investigate solutions and ways of keeping the long term life of microfinance institutions.
3. examine management-employee relationship in Microfinance Institutions.

1.4 Research Questions

Research questions are the questions that are asked based on the objectives of a research problem and thus serve to set boundaries to answering the problem under investigation. This study was guided by the following questions;

1. what are the strategies used by these successful Microfinance Institutions?
2. what are the solutions and ways to keeping the long term life of microfinance

institutions?

3. what is the management-employee relationship in the Microfinance Institutions?

1.5 Significance of the Study

This study is of importance in investigating particular factors across two different microfinance institutions with regards to sustainability. The importance of the study is to the many microfinance institutions in the Ghanaian economy, especially Kumasi. This is because it serves as a guide to their operations and helps them overcome some hurdles which in times past might have been difficult.

This study stands to contribute to existing literature on sustainability of microfinance institutions, especially in Ghana. Findings from this study serve policy makers in the country (Ghana) and also to Ghana Association of Microfinance Companies in their policy formulation and implementation.

1.6 Scope of Study

This study concentrated on two microfinance institutions in the Kumasi Metropolis in the Ashanti Region of Ghana that have existed for more than five years of operation. The institutions selected were those who were still in business and have made profit for the past five years of operation. This was to allow the study to probe into why their success in this keen competitive market. The two institutions under study are Nationwide Microfinance Limited and Dwadifo Adanfo Microfinance Limited, all in Kumasi.

The focus of the study was limited to such institutions and their internal operations that have contributed to their sustainability over time. This focus was to help the study give deep insight into the practices in these institutions that help their success.

1.7 Overview of Methodology

This study adopted the exploratory research strategy and the use of case study design with a sample of 2 microfinance institutions. The managers of these institutions in Kumasi represented the institutions and were interviewed. The purposive sampling was used to select these managers.

1.8 Organization of the Study Report

This study is prepared into five main chapters. The first is the general introduction to the study, problem statement, objectives and significance of the study and its scope among others. Chapter two is on the review of related literature and chapter three is a discussion of the methodology used in the study. Chapter four is about presentation and analyses of the data collected while the last chapter summarises the study, give recommendations and conclusion.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter critiques selected literature on microfinance and their sustainability. Journal articles especially were reviewed so as to be abreast with trend of sustainability of microfinance institutions. This chapter looked at history or advent of non-banking financial institution in Ghana, development of microfinance in Ghana and the MASLOC. Loan processing in MFIs and credit policy as well as loan repayment were considered. However, they were sub sectioned to aid comprehension.

2.2 Understanding Microfinance

Microfinance is seen in varying lenses. No single agreed upon understanding of microfinance is adhered to. It is understood as a financial service for the poor, to deal with poverty and help those who have no direct access to the tradition formal banking institutions.

It is considered as financial services that deal with small scale business owners, petty traders, people who do not need huge sums of money for businesses. It is directed at the rural and urban poor in developing countries. Robinson (2001) sees microfinance as activities of banking geared towards small credit and collateral free loans accepting small amounts of deposits.

Microfinance is dealing with the poor and economically challenged individuals and those who are self-employed (Otero, 1994). According to Ledgerwood (1999) financial services generally include savings as in deposits and credit as loans but can also provide other financial services such as payment and insurance services. Basically, these financial services provide the traditional deposit through the mobile banking system and credit extension, however, other banking services are also provided such as insurance.

Microfinance is considered only for the poor in the alleviation of poverty through giving access to credit to the poor. This is because the big banks do not usually extend credit to poor individuals or individuals who are engaged in risky businesses. The neglect of these banks has made the growth of microfinance unparalleled.

Though the terms microcredit and microfinance are often used interchangeably, they are different. Microcredit is the act of giving credits (loans) of small amounts to the poor individuals and other borrowers that have been ignored by traditional or commercial banks; its unique feature is that no collateral is required or legally enforceable contracts. It is simply based on _trust,‗ and not on legal systems and procedures.‖ Microcredit includes all lenders, specifically the formal participants such as specialized credit cooperatives created by the government for the provision of rural credit and others of a more informal kind like the village or town moneylender, loan sharks etc.

Microcredit is the act of providing the loan. Microfinance on the other hand, is the act of providing these same individual or group borrowers with financial services, such as savings, payments, insurance policies and other services. In short, microfinance encompasses the field of microcredit (Yunus, 2007).

According to Robinson (2001) and Otero (1999), microfinance is a relatively new term in the field of development gaining attention in the 1970s. Prior to that, from 1950s through to the 1970s, the provision or giving of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. It often resulted in high loan defaults, high losses and an inability to reach poor rural households (Robinson, 2001).

Robinson states that in the 1980s, microfinance institutions got to a point of turning where there were no donors but the institutions became sustainable and were making profits. The 1990s saw the speed of growth in the number of microfinance institutions and an increased emphasis on depth of outreach and also microfinance then moved to become an industry (Robinson, 2001). Dichter (1999) refers to the 1990s as the microfinance decade. In actual sense the growth in microcredit has changed attention from just the provision of credit to the poor and the needy, to the provision of other financial services such as savings, insurance and pension policies when it became clear that the poor had a demand for these other services (MIX, 2005). This observation made it known that these institutions do not need external help in helping the poor out of poverty. However, not all were able to stand. In the 1990s the faster growth of microfinance institutions has now shifted attention from the profitability to sustainability and outreach depth. Microfinance industry is now booming and has become much of interest to the developing world.

2.3 Advent of Non-banking Financial Institutions

The emergence and growth of the non-banking financial institutions and informal institutions over time affected domestic savings mobilization and credit delivery support in the formal sector as savers moved to the informal and non-banking financial institutions. The concept of microfinance is not new in Ghana.

Traditionally, people have saved or deposited with and have been able to take small credit from individuals and groups within which they offer self-help to start businesses or farming ventures. Microfinance provides much solace in the financial system to individual or group clients since its products or services are flexible and tailored to offer adequate financial services to the large number of people who do not fit into the tradition or commercial banking system. It serves as a tool to also mop up extra liquidity while offering other social intervention services to bring economic empowerment to the poor.

Evidence available suggests that Canadian Catholic Missionaries were the first to established Credit Union in Africa specifically Northern Ghana in 1955. Susu is one of the ancient traditional banking systems found mostly in African countries as a means of fund mobilization for commencement, sustenance and in some cases development of small scale enterprises (SSE) (Alabi et al. 2007).The concept of susu is believed to have been introduced in Ghana by Yoruba traders who originate from Nigeria (Aryeetey and Gockel 1991).

The Government of Ghana implemented the Financial Institutions Structural Adjustment Programs (*FINSAP*) in the late 1980s to restructure distressed banks, clean up nonperforming assets, restore banks to profitability; reform legislation and the banking supervisory system to allow the entry of new banks or financial institutions and develop the money and capital markets. The development of money and capital markets was to encourage competition in the financial services sector (Sowa, 2003). The banking system then suffered severe widespread bank distress as a consequence of the pre-reform policies of financial repression, control of government on banks and the prolonged economic crisis.

Some of the new financial institutions that came in the wake of FINSAP are; discount houses, finance houses, acceptance houses, building societies, leasing and hire-purchase companies, venture capital funding companies, mortgage financing companies, savings and loans companies and credit unions.

2.4 Development of Microfinance Institutions in Ghana

Microfinance is not a day old in the Ghanaian economy. It has existed since time immemorial where people extended credit to friends and family members and received their monies back with interest. Empirical studies have revealed that 14% and below of the population in developing countries do not have access to mainstream formal financial services of banks (Aryeetey & Gockel, 1991). For these groups they have to self-finance their investments through friends and family members and own savings which most of the time are not enough. This serves to continually keep the poor being poor.

In Ghana, there is the Moneylenders Ordinance (1940 and 1957), Co-operative Decree, 1968, NLCD 252, Banking Law 1989, (PNDCL 225) and Non-Banking Financial Institutions (NBFI Law 1993, (PNDCL 328). In Ghana these legalities are used to regulate the services and actions of the institutions and bring about sanity in the Ghanaian financial sector.

2.4.1 Microfinance and Small Loans Centre (MASLOC)

This is a government of Ghana initiative to provide credit to those who are in the informal sector but need money to start or expand their business and thus serve to alleviate poverty. This is in conjunction with World Bank and has its aim to empower poor people financially in the short term. It is to make credit available for the poor who are innovative and entrepreneurs such as petty traders, farmers and commercial vehicle drivers.

Under this scheme, individuals, groups and businesses are allowed to access loans between hundred thousand Ghana Cedis and two hundred and fifty Ghana Cedis. Each member of the group can access GHC 10,000 which is refundable within one year with 10% interest. There is also the collaboration between some rural banks and microfinance institutions to serve as middlemen in the disbursement of loans to needy individuals who are engaged in businesses and in need of financial aid.

2.5 The Welfare versus the Institutional Studies of Microfinance Institutions

In developing countries, the lack of access to savings, credit and insurance services is among the main constraints facing low-income households and the poorest. This lack of financial services contributes to limiting the ability of the poor to finance their activities, improve their incomes, and have access to basic services such as food, education, medical services, clothing, housing, etc. (Zeller and Sharma 1998). Because commercial banks neglect to provide savings and credit services to them, the poor, at least until the 1950‘s, almost exclusively borrowed from informal lenders (Adams and Vogel 1986; Germidis et al. 1991; Adams and Delbert 1994, etc.).

In order to mitigate the imperfections of financial markets, microcredit projects were established after the Second World War, thanks to support from governments and donors. The objective was both to reach the greatest number of poor people and to provide them with financial services at a low cost. Since it was widely believed that the key determinant of the poor demand for credit was its costs, these microcredit programmes were largely subsidized.

Governments and donors then designed microcredit as part of an integrated programme of poverty alleviation and welfare improvement in favour populations. Their approach was considered to be _welfarist approach‘ or _directed credit approach‘. Based on logic of subsidization, this approach led to high unpaid rates and transaction costs, resulting in the failure of many microcredit programmes (Von Pischke et al. 1983; World Bank 1989; Yaron 1994, etc.).

Economists from Ohio State University—such as Adams, Cuevas, Graham, Von Pischke, Adams and Donald, etc., experts in rural finance—were among the first to show that most of these credit programmes launched in developing countries have failed. They blame this failure on the fact that these programmes are based on faulty conceptions:

(i) the poor are neither creditworthy nor able to save;

(ii) credit should be cheap in order to allow small farms and urban micro activities to be profitable enough;

(iii) subsidized microcredit may decrease the role of informal lenders which charge high interest rates;

(iv) financial transactions on informal financial markets would not be significant, and

(v) commercial banks would not operate in rural areas because transaction costs are higher.

According to rural finance experts, each of these assumptions led to _worst practices‘ which resulted in inefficient and costly policies:

(i) low interest rates had often led to gross distortions and mistargeting in services;

(ii) subsidized credit constantly encouraged borrowers to engage in less productive activities, and contributed to significantly increased loan losses;

(iii) cheap formal credit benefited only rich households, i.e. a tiny proportion of the population;

(iv) finally, low interest rates prevented full recovery of transaction costs, and severely affected the performance of financial institutions.

These findings led to a new approach characterized by the will to liberalize financial markets. This new approach strongly influenced financial reforms implemented in 4 developing countries. Considered as an _institutionalist approach‘ or _financial market approach‘, it, above all, focuses on the fact that subsidies led to a worse allocation of financial resources, and to unsustainable institutions.

The defenders of this approach (Adams 1985, 1992; World Bank 1989; Gurgand et al. 1994, etc.) are seeking to establish first of all institutions, which offer savings and credit services on sustainable and commercial bases. MFIs designed in this way emphasize financial selfreliance and viability. They charge high interest rates, because of high lending costs. The objective is not only to reach large numbers of the poor, but also to do it in a sustainable manner (Gurgand et al. 1996; Yaron and Charitonenko 1998; Gibbons and Meehan 1999, etc.).

These two approaches, i.e. the _welfarist approach‘ and the _institutional approach‘ still exist. Many MFIs are caught, on the one hand, by their determination to find new sources of external funding to increase their loan portfolio in order to ensure their financial viability, and, on the other hand, by their concern to provide service to low-income and poor people, and reconcile their economic and social objectives. This contrasted opposition between these two trends of thought constitutes what is commonly known as _microfinance schism‘.

2.6 Loan Processing in Microfinance Institutions

Risk is inherent in credit extended to individuals because there is the possibility default. Lending is when someone gives money or any other product to another person and expects to receive it back at an agreed time with interest or more than what was given in the first place (Siaw et al., 2014). Because of this, an individual needs to assess that borrower carefully to make sure that repayment can be done at the agreed upon date. Existing research puts responsibility on the lenders to ensure that they are making sound judgement in relation to giving out the money.

Lenders must ensure that they are making good and effective decision. The lenders must gather as much information as possible about the borrowers before credit is extended through assessing the information collected about the borrower. An understanding of this will serve to place emphasis on repayment and bring down loan default.

In assessing this information, credit history, type of business and purpose of loans among others are to be looked into (Siaw et al., 2014). According to them, there are some elements that are taken into consideration before loans are approved. Below are the following subsections that are explanations of these elements or factors.

2.6.1 Preliminary Screening

Here, the prospective loan applicants go to the institution and are carefully screened, asked a couple of questions or specific questions and their backgrounds checked against the information provided by them. Issues regarding credit history, household expenditure and income, type of business among others are screened. These are done to check eligibility of the prospective borrower. This is one of the most important phases in the processing of loans before approval is given.

2.6.2 Loan Proposal and Credit Committee

Applicants of the loan are assigned to specific loan officer or client relationship officer. Applicants undergo a further review to verify the information taken at the initial stage, and a visit to the applicants businesses and household is arranged. The information thus developed is organized into a formal loan proposal and presented to the credit committee for approval. The credit committee makes sure that all information provided by the applicant is correct and that there were no fabrications because of the need for a loan. The loan amount and tenure are determined based on the adequacy of the cash flows generated by the borrowers business, sufficient personal collateral and or guarantors agreeing to co-sign the loan agreement. Though the committee is made up of the manager and other staffs knowledgeable in credit or with credit background, there should be unanimous agreement on the approval or disapproval of the proposal.

2.6.3 Monitoring and Repayment

Loan monitoring is one of the most important stages in credit extension. Borrowers need to be monitored for repayment to be effective. They have to be monitored to know that they are actually using the money for what the money was taken for. This serves to put some sense of responsibility on them to repay back the money.

2.7 Performance of Microfinance Institutions

Ahlin et al. (2010) examined what determines the performance of Microfinance Institutions. One of their findings include that Microfinance Institutions‘ performance was not necessarily good or sometimes worse in the country where the institutions are more advanced. They made clear of financial performance and non-financial performance of these institutions but stressed the financial performance. They came out with an understanding that at least if an institution is to be performing for a period, the institutions should be able to cover all its costs in that period. Profitability may be achieved by reducing expenditure and enlarging output by increasing the interest rate on loans.

2.7.1 Reducing Financial Cost

According to Howitt (2007) transactions take place with costs and that whether the transactions were successful or not, the cost might have been incurred. Risky populations are the poor. Such populations serve to increase cost in dealing with them. Administrative costs among other costs are to be borne by the institutions under consideration. These costs of dealing with such populations all go affect the institutions' performance. Reducing the cost of transactions and administration is very important in performance.

2.7.2 Carrying out a Financial Margin

Microfinance institutions need to be financially autonomous and not reliant on any other source of external funding. This is so because external funding will never keep coming. An understanding of this makes these institutions become profit oriented. Keeping a financial margin is to make sure that proceeds received from savings from customers and the interest rates on credit are keeping them in business. This financial margin is very important if the institution is to be considered as performing.

Financial Margin Ratio = (Earned Interest – Paid Interest) / Financial Assets

Note: Financial Assets: assets ensuring financial returns (investments, gross value of loan portfolio, etc.)

2.8 Microfinance Sustainability

Sustainability of microfinance can be put into two; that of financial sustainability and that of substantial outreach.

2.8.1 Financial Self-Sustainability

Financial self-sustainability is when the proceeds received from offering credit exceed the costs or risks in granting that credit. In this regard a positive on-lending interest rate is considered a gain and thus preferred. That is covering all other costs from the proceeds the institution receives without making a loss.

Hulme and Mosley (1996) in their study of 13 MFIs in seven countries used real interest rate charged, six-month arrears rate, frequency of loan collection, availability of voluntary savings facilities and availability of incentives to repay to determine the financial sustainability. Other means were seen to induce borrowers to repay and on time, such as encouragement and the threat of not receiving loans next time when they are in need were found. The study came out with the finding that institutions which are financially sustaining are able to curb poverty and vice versa.

2.8.2 Substantial Outreach

Outreach has to do with the number of clients served and the depth of service extended to those customers or the poor. In the quest to alleviate poverty, the microfinance institutions make sure to include the socially marginalized because of economic needs. Outreach is not only with the numbers that the institutions are working with but also the depth of interactions between them. The extent or breadth of outreach is represented by the absolute number of households or enterprises (or relative market penetration) in the target population reached by the institution; the depth of outreach indicates how deep into the pool of the underserved the institution or programme has been able to reach. An understanding of this is drawn that the number of services provided for an individual may be considered outreach depth.

2.9 Credit Policy and Loan Recovery.

A credit policy deals with the laid down rules of credit extension and the criteria with which a customer is granted loans or not. Robinson M. S report on microfinance revolution Volume I (1994) defines a loan as an extension of credit to another person (client) for short periods or long periods. Basu (1997) stated that before a deal is signed a loan application is to be completed. This provides risk protections by enabling the lending institutions to follow up when the borrowers fail to honour the agreement.

Credit policies relate to a compounding of 3 variables of decision. These help determine who has to be given a loan and who should not. They are credit standards, credit terms and collection efforts.

2.9.1 Credit Standards

This deals with the prospective borrower in question. It assesses the individuals' character, credit history, type of business, and profit in business among other things of interest. It must be understood that this is not to rule out an individual but to assess him or her against an already established standards set for consideration in being granted credit.

2.9.2 Credit Terms

Terms are the conditions after the loan has been granted. It makes mention of repayment times, interest rates and other things that can affect repayment. However, clients need to understand

and agree before they are given the loan. Here the individual might have passed the credit standards and much ready for the money. The chartered institute of bankers and lending text (1993) advises lending institutions to consider amount given to borrowers. Robinson M.S (1994) pointed out that the maximum loan amount per cycle are determined basing on the purpose of the loan and the ability of the client to repay (including guarantee).

2.9.3 Collection Efforts

Mc Naughton (1996) sees collection efforts as an institution established ways of retrieving their monies. However, it transcends beyond that to the individual recovery officer‘s efforts. The individual recovery officer must be persuasive in getting whatever is for the institution. It is worthy of not that it can sometimes be expensive (Brighan, 1997). Effort may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation.

2.9.4 Indicators of Loan Recovery

The following are the measures used to determine loan recovery. Repayment rate measures the amount of payment received with respect to the amount due. Portfolio quality ratios; involves the arrears rate portfolio risk and the ratio delinquent borrowers. The arrears ratio rate shows how much of the loans have become due and has not been received. Portfolio rate refers to the outstanding balance of all loans that have an amount due.

Delinquent borrowers determine the number of borrowers who are delinquent relative to the volume of delinquent loans. Profitability ratio measures on micro finance institutions net income in relation to the structure of its balance sheet. This helps investors and managers determine whether they are earning an adequate return on funds invested in the microfinance institutions. Productivity and efficiency ratios provide the information about the rate at which micro finance institutions generate revenue to cover their expenses. Productivity ratio focuses on the productivity officers because they are primary generators of revenue. The ratio includes;

1. Number of active borrowers per credit officer (performing assets).
2. Total amount disbursed in the period per credit officer.
3. Portfolio outstanding per credit officer (Non performing assets)

Efficiency ratios measure the cost of providing loans to generate revenue; these are referred to as operating costs and should include neither financing costs nor loan loss provisions.

Scale and depth of outreach, Microfinance institutions collect data on their clients' base on both the scale of their activities (number of clients served with types of instruments) and the depth of outreach (type of client reached and their level of poverty). Outreach indicators include; number of active borrowers, total balance of outstanding loans, average outstanding, real annual average growth rate of loans outstanding during the past years loan size, average minimum and maximum, average disbursed loan size, average outstanding rates, average loan term, nominal interest rates, effective annual interest rates, value of loans per staff member and number of loans per staff member.

2.10 Risks in Credit Granting

―*Risk is the potentiality that both the expected and unexpected events may have an adverse impact on the bank's capital or earnings*‖. It is considered that the perceived loss of credit is borne by the borrower that is why they are to pay back with interest (Arunkumar & Kotreshwar, 2005).

Systematic risks and unsystematic risks are the risks inherent in the financial market. Systematic risk is that which is positively related to market and can be brought down by using diverse management practices of risk. The unsystematic risk on the other hand is consorted with the worth of the asset.

Oldfield and Santomero (1997) described three risk standards which are risk avoidance, risk transfer and risk acceptance. According to Arunkumar & Kotreshwar (2005), the risks in banks‘ portfolio can be put into three;

1. Risk of Transaction: This happens mainly with administration in the financial institutions where there can be underwriting and other such things.
2. Intrinsic Risk: These are default risks that come with financial institutions and every institution has these types of risks.
3. Risk of Concentration: This is risk of transaction plus intrinsic risk combined.

Discussed below are the various sources of risks that banks deal with.

Economic Conditions: Serious economic changes can impact on the management of risks for banks. Changes in unemployment and national income have the tendency to affect the liquidity of banks and thus profitability. All these have the ability to influence borrower‘s capacity in repayment. ―In addition legal and regulatory change could cause financial institutions to change how they oversee a transaction, as well as the quality and ability of debt collection‖.

Competition: Market competition in the credit market has the tendency to increase the amount of loans given out in the economy which will give rise to more loan defaults resulting in problem loans. Since the financial institutions are competing, it gives the borrower the chance to avoid being caught of bad credit history.

Underwriting Standards: ―This is a process to determine what kind of, to whom, for what purpose and when to grant credit. Appropriate approval for processing credit should include adequate guidance on how methodology is used in assessing solvency, the establishment of the credit line and appropriate interest rate to borrowers and credit risk‖ (Calmès, 2009).

Staff Competence: Poorly trained staff can undermine the performance of financial institutions. If the staffs are not competent enough to deal with clients and appraise clients properly before approving loans, the financial institution is sure to fail since people who are not credits worthy may be given loans and cannot pay back with interests.

Management Information System: Proper management information system can help to track clients and see their progress on loan repayments and even to track their past credit history which will help the organizations to determine who deserves to be given loan or not.

Poor Credit Quality Assessment: This is where there is poor evaluation of the institutions finance and the market in which they operate. This usually results from poor availability of information to rely upon for evaluation and decision making. Simple indicators can be used by management to assist in the assessment of credit quality in order to reduce the risks inherent in credit.

New Products or Services: Institutions who neglect to evaluate inherent risks in any product they try to put into the market is bound to face the problem of high risk associated with the products. Not because we want to increase the variety of products we have so far, we are just being innovative in bringing about products but also how those products will fare is of importance.

Subjectiveness of Decision Making: This happens regarding credit approvals, it a known common risk that financial institutions face. Before credit approval, the credit worthiness of the borrower needs to be assessed to find out if the borrower is in right standing in terms of income to pay back the loan with interest. However, there is some times where subjective decisions are taken and loans granted. This poses risks to the financial institution.

Lending above Collateral Value; if a loan is over and above the amount of collateral collected, the financial institution stands to face the risk since in times of non-payment; the institution cannot guarantee the collateral to be able to pay off the loan. This means that if a financial institution is giving out loans, it should consider the value of the collateral before giving out the loan. Care must be taken so that the amount of loan given out commensurate with the value of the collateral.

Business Cycle Negligence: If the business cycle is neglected and credit is just given with no consideration, the bank stands no chance of surviving. If the business environment is not profiting, the bank has to hold on to giving out money to some customers and consider other customers rather. This will help maintain profit

Properly considering the business cycle allows the bank to map out strategies to overcome the difficulties that lead to bad loan and loan defaults.

Poor Credit Review: Poor credit review that is poor appraisal of the credit history of customers is known to bring about loan defaults in most banks. If there is proper and honest credit review, the bank benefits and vice versa.

Self-dealing: Self-dealing which is sometimes called insider dealing is when credits are given to insiders with no interest rate on these monies. This has the tendency to reduce the credit standing of the firm and also there is the high risk of non-payment.

Technical Competence: This is evident when management cannot obtain and assess credit information in order to analyse the viability of credit products. Such management weakness can eventually lead to loan losses.

Lack of Proper Supervision: Improper appraisal of credit arises when there is lax in the supervision by management. When this happens, the credit officers or staffs are allowed to do as they please with loans which does not auger well for the institution.

All banks are facing a number of risks and so there is a need for proper supervision by management to ensure that these risks are brought to a minimum. In other words banking is a business of risk. Careyy (2001) indicates that ―*risk management is more important in the financial sector than in other parts of the economy. The purpose of financial institutions is to maximize revenues and offer the most value to shareholders by offering a variety of financial services and especially by administering risks*‖.

2.11 Management-Employee Relationship in Microfinance Institutions

In any organization the main managerial activities consist of supervision, coordination and task allocation in order to achieve the aims of the organization. Manager-employee relationship states that the relationship is something that in recent time have started to be associated with the leadership.

Human resource is an investment for the organisation which needs to be handle with care. Employees need to be viewed as much as a physical asset is viewed. Human assets cannot be duplicated, therefore becomes competitive advantage that organisation enjoys on the markets. If an organisation manages its human resource or employees as an investment then this is an integrated approach that consists with organisational strategy. In this case management needs to better find a good and innovative ways to keep employees in a relationship. Staff welfare is also important in relationship building. Motivation of employees when targets are met keeps them from doing more than what has been achieved.

Focus is now more on the relationship as a part of the leadership. Many studies have been done on the role of the manager when it comes to leadership but less on the subject of relationship. It is therefore necessary to conduct more research on this aspects and its connection to the leadership (Graham, 1996).

2.12 Chapter Summary

This chapter reviewed literature by other scholars in the field of microfinance and their performance. This is to help situate the study in an academic scene. Literature reviewed so far did not consider the movement of high performing Microfinance Institutions into Savings and Loans Company. This study seeks to fulfil this.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

―Methodology is simply a guide or approach for figuring out an issue, with particular components such as tasks, approaches, tools and techniques‖. It is considered as a set or system of methods and principles that is to say rules for regulating a given discipline, coming out with a solution or finding out what is. It seeks to measure the procedure and techniques researchers use to come out with a body of knowledge together with the reasons and logic behind the techniques chosen. It also spells out the ins and outs of a research work and the ―hows‖ of coming out with conclusions. How body of knowledge is going to be generated is spelt out in methodology. This chapter discusses the research design, the instruments for the data collection, defines the population, the sampling procedures, the sampling size and data analysis technique.

3.2 Research Design

This research adopted an exploratory research strategy making use of qualitative methods. An exploratory study seeks to find out what is happening so as to gain an understanding into an occurrence (Robson, 2002). Exploratory research strategy was chosen for this study since the study made intended to look at a relatively new angle to factors that enhances the sustainability of microfinance institutions – the human aspect, not forgetting the financial aspects also.

Kumekpor (2002) defines research design as ―the planning, organization and execution of social investigation‖. It may then be defined as the conceptual framework within which the whole research is conducted. Thus, it is the term used to describe how data was collected, analyzed and interpreted with respect to a particular research topic.

This study adopted a case study design and used qualitative method of data collection and analysis, with two microfinance institutions as the selected case. The case study design was selected as it afforded the opportunity to study the institutions in-depth regarding their sustainability and the factors which enhances it.

According to Yin (2003) a case study design should be considered when: (a) the focus of the study is to answer ―how‖ and ―why‖ questions; (b) you cannot manipulate the behaviour of those involved in the study; (c) you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or (d) the boundaries are not clear between the phenomenon and context. This study set out to find how these microfinance institutions have been sustainable up until now and why. The behavior of the people in the institutions could not be manipulated so are the institutions on the whole. The study of these institutions in context however, is the boundaries between the factors enhancing sustainability and sustainability were not clear. All these called for the use of the case study design.

3.3 Sources of Data

This study made use of predominantly primary data. Primary data is that which is collected from the field. This primary data was collected through the interview had with the managers of the two microfinance institutions. In the collection of the data, the interview was done in the natural work settings of the managers.

3.4 Unit of Analysis

The units of analysis for the study were those microfinance institutions who have operated for more than five years in Kumasi. These institutions were the units of analysis because their existence for more than five years in the city of Kumasi speaks a lot about them in terms of sustainability. Some microfinance institutions have not been able to survive for that number of years and have collapsed.

The mangers of these institutions represented the institutions. This was because they were the ones who could provide information on the internal processes of the institutions under study. They represented the institutions and provided data on the institution to inform this study. Other employees may not know all the internal processes of the institutions since they are in departments and might not know what is happening in other departments. However, they all report to the managers and so making the managers the best person to contact for this research.

3.5 Population and Sampling Units

Population is the complete enumeration of all elements or objects of interest in a study. With regard to the topic under study, the population is the complete enumeration of all microfinance institutions in Kumasi who have existed for more than five years.

The sampling unit for a study is the list of all the elements in the population from which the sample is to be drawn. The sampling units for this study were those microfinance institutions who have existed for five years or more in Kumasi. Having this study in light, the easy to reach units were Nationwide Microfinance Limited in Kumasi and Dwadifo Adanfo Microfinance Limited in Kumasi.

3.6 Sampling Size

Samples of two microfinance institutions which have existed for more than five years in Kumasi were chosen for the study. It is worthy to note that after enumerating the microfinance institutions in Kumasi which have existed for more than five years, a total of six institutions were ascertained. Due to the number, i intended to use all these six institutions for the study. However, these institutions were reluctant to allow the study to be conducted on their operations that have enhanced their sustainability for those years because they are in competition with other institutions in the industry. Even upon the assurity and confidentiality given to them that it is a course work or academic purposes and it will not be publish even if it will be, the names of their respective institution will not appear they refuse to help in the study. Due to this difficulty, only two institutions were used. These institutions had top managers whom i knew and so used that as an advantage and exploited that opportunity. I talked to them who in turn talked to the branch managers at Kumasi to grant the audience for the interviews and that the interviews were for academic purposes only. It must be noted that the other four institutions were presented with permission letter from the academic department but they did not pay heed.

The two institutions with whom the interviews were had were Dwadifo Adanfo Microfinance and Nationwide Microfinance Institution all in Kumasi. The managers represented their institutions in this study.

3.7 Sampling Technique

The purposive sampling technique which is a variant of non-probability sampling was used to select the managers for the study. Non-probability sampling is the sampling technique which does not give the elements of interest equal chances of being selected or included in the study. Purposive sampling is sampling with intent with no statistical estimation (Yin, 2003). It has some form of bias in it but with a purpose. It is worthy of note that the institutions were represented by their managers. This is because the institutions are not the buildings but the people working in those buildings. For the institutions, they were selected because they had existed for five years or more in Kumasi metropolis. I wanted to use all the institutions which fit the criteria for inclusion in the study but due to reasons outlined under the sample size, only two were studied in-dept.

3.8 Data Collection Instrument

The instrument for data collection used was the interview guide. On the interview guide were open ended questions. This was to engender discussions on questions asked to get an in-depth understanding of what the managers meant. The reason for the interview guide was to keep the discussions on course and also make sure that the same questions were asked the managers of the two different institutions.

3.9 Pilot Testing

There was the intentional pilot testing of the interview guide on some purposefully selected managers of other microfinance institutions. This helped restructure and order the questions while some were maintain as they passed the pilot.

3.10 Analysis of Data

Descriptive method of data analysis was used. This involved the use of comprehensive sentences in the explanation of the responses of the managers. They were based on the data collected from the field. This type of data analysis was used since the study intended to find out ―what is‖ which called for qualitative data collection.

3.11 Limitations

The study faced the limitation of finance, time and gaining access to the two selected institutions. To mitigate these limitations, an appropriate budget was drawn for this study and a time table drawn to facilitate the work. In order to gain access to the institutions, official letter from the academic department of the school was sent to request for the access to do the study with the institutions.

3.12 Brief Profile of Case Study

In June 2010, Nationwide Microfinance Limited was registered and started operation in the country. This company has been making headway in the Ghanaian microfinance sector with ongoing opening of branches across the country. The company has directors well vested in micro credit which has served to positively affect the institution.

Dwadifo Adanfo was incorporated in April 2009 with the main objectives of financing small scale businesses and petty traders. The company has as its objective to help the petty traders who do not require huge sums of money to do business and also are not open to the mainstream financial institutions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND DISCUSSIONS

4.1 Introduction

This chapter considers the data collected from the field of study and analyses with discussions for reader comprehension. This is done in four main parts or sections based on the objectives of the study. Under each objective, an attempt will be made to draw out relevance of data presented to the study. However, the profile of the respondents were also asked and analysed. This forms the preliminary data analyses stage before zooming in into the objectives of the study.

4.2 Profile of Respondents

The background characteristics of the managers of the two microfinance institutions were sought. This was because their background has the tendency to influence their decisions and the information they will provide for this study.

The sex of the officials or respondents was asked. All the two managers were males. This finding was not surprising as the Ghanaian communities are represented by male heads in most institutions.

On the level of education, it was realised that all the two managers had tertiary education. However, one had an additional professional qualification. This was the Association of Certified Chartered Accountants (ACCA).

Both managers had worked with their institutions in the managerial positions for more than five years. This was very important as they can give the account of what has transpired in the organization that has kept them viable until now.

4.3 Strategies of Keeping Microfinance Institutions in Business

This research sought as one of its objectives the strategies that were employed by these successful institutions in keeping them in operation despite keen competition in the Ghanaian market. Various questions were asked to elicit this information from the managers. This helped to unearth the basics of staying in the financial business. It is a common place to hear that these institutions make most profit from their lending activities and those other sources of financing prove only less on the profit margins.

4.3.1 Source of Finance Apart from On-lending with Interest

On asking as to whether there are other sources of finance and profit making avenues apart from the traditional activities of lending on interest, all the managers agreed to a yes that there are other forms of profit making avenues to their institutions. This was what one of them said;

> ―… of course, we do have other forms of making money. We would not have been able to survive the Ghanaian market if we kept to only the traditional means of making profits. We resort to other investment avenues that are capable of increasing profit margins. ‘‘ Manager 1

―we do not only rely on the granting of credit to customers at interest rates. We also consider other possible means of making extra money to keep the organization going. We however cannot relegate the profit that is brought in by the traditional lending system.: Manager 2

A follow up question was asked that managers name the other sources of finance for the organization. Among the sources named were treasury bills, bonds, and real estate. These other sources serve to buttress the traditional activities of lending with interest charges. All these sources of financing are very important as they assure the institutions of extra cash if the recoveries are not forth coming.

―Among some of the source from which we get money are treasury bills, bonds, real estate investments and the likes.‖ Manager 2

4.3.2 Relationship with Clients

The managers were asked to describe their organizations' relationship with their clients. This was to help know if relationship with clients has anything to do with performance which translates into sustainability. Institutions do not exist without customers of people that they opreate with. The assets and capital do not operate themselves to make profit but people work with them to make profit. It will thus be safe to assert that without relationships between people and the capital, no profit will be made. However, the kind of relationship has a lot to determine in the sustainability of any institution.

When asked to personally describe their organizations' relationship with their clients, three main themes were gathered. First, cordiality was envisaged from the description of the relationship between employees and clients. To them this serves to make the clients enjoy the not too formal casual dealing with them and the employees. Also, customer-focused relationship was said to exist between clients and employees. The last was an understanding relationship where conflicts were eliminated as much as possible as this could affect the integrity of the organization. This is what one manager had to say;

> ‘‘We are very cordial and friendly with our customers since without their inputs we cannot thrive as an institution. They are the key focus of this institution, so we try to maintain a harmonious relationship with them.‖ Manager 2

> ―We try to provide whatever the customer needs, making them feel valued and cherished as loyal customers. This has created some form of relationship between the organization and the clients we serve. This relationship is harmonious.‖ Manager 1

4.3.3 Group Lending

Group lending was another question that was asked the managers. It was asked if group lending was used by the institutions. All the managers said yes, group lending was practiced by their organizations. As to why group lending was used by them, it was envisaged that group lending was used because each member of the group becomes the keeper of the other member and a watch for the other member to repay loans and on time as repayment of loans given to groups is not done individually but in groups.

Group lending is practiced by almost all microfinance institutions and serves as a form of collateral. However, with group lending, it was realised that physical collaterals were not taken from members of the group. The members of the group were each others‘ recovery officer. With individual lending, sometimes collaterals are taken in the form of both landed and non-landed properties. This was what one manager said;

―Yes, we do group lending as it has been successful over the years. We realised that members in the group felt obliged to make sure that the others pay back their loans so that they can all have access to credit when the need arises.‘‘ Manager 2

―We engage in group lending and so far it has been very rewarding as the repayment rates are very good compared to individual lending‖ Manager 1

This means that group lending was a serious innovative way of loaning out cash and to make sure that recovery is timely and without delay.

4.3.4 Organizational Interaction with Groups

The managers were asked the level of organizational contact and interaction with the groups they lend money to. According to the mangers there was moderate to high contact and interaction between the organizations and the groups they serve. There was constant interaction between credit officers and the clients as the managers made sure that the officers were monitoring clients on the use of the loans for the purpose for which the loans were given. Not only was there the field monitoring, there was also the monitoring of their repayments and the regularity and timeliness of their repayment.

―Over here we make sure that there is constant interaction between the officers on the field and the clients that we serve or work with. This makes the customers feel being part of a company and its growth. This interaction helps us to know the common problem they face in their businesses and offer them help if the help is within our reach. For example we offered cash management training for a group of market women who are our customers. They learnt how to properly manage cash in their business‖ manager 2

4.3.5 Monitoring of Clients

All the two managers said they made sure client monitoring was done. Upon this a follow up question was asked as to how the monitoring was done. This was find out in their own style how the monitoring was done. The monitoring according to the managers was done regularly. The credit officers go to the workplace of the clients and observe as well as ask some questions regarding the state of the usage of the loan received. There was also the in-house monitoring, where the repayment of the clients were evaluated.

―We do monitor clients as some clients can decide to use the loan given to them for purposes other the purpose for which the money was taken for. This, when done makes repayment difficult.‖ Manager 1

4.4 Life of Microfinance Institutions

As an objective of this study, the researcher set out to find out the sustenance of the long time life of the microfinance institutions. Microfinance institutions springing up and collapsing in Ghana is a common place. Due to this, questions were asked to elicit data on how the selected institutions have fared up until now. This was to help gather data on how these selected microfinance institutions have survived despite keen competition in the financial industry.

4.4.1 Information about Clients

In order to know clients and serve them well, information about them must be well documented and known by the management and employees. The employees thus use this information to their advantage for the sustenance of the institution.

The managers were asked of how they get the information about their clients. To begin with, they engage in a preliminary questioning of the clients. So to the managers, most of the client information was from the clients themselves through questions and answers. There was also the background check that is done without the client being aware. All these help to create an informational data base for the clients.

4.4.2 Contractual Agreement with Clients

The two managers interviewed said that their respective organizations enter into a contractual agreement with their clients before dealing with them. There was a 100% response to yes in terms of the existence of contractual agreement between customers and the selected microfinance institutions.

In describing what the agreement entailed, the managers were of the opinion that the agreement entailed terms or loans and loan repayment among other legal issues that the clients were to understand before working with the institutions.

> ―The contractual agreement is basically with issues of loan repayment and legal issues that might take place if there is default. The money is what keeps this organization going, so we are very keen on getting our monies back when given out.‗‗ Manager 2

4.4.3 Institutional Branches and Information about Clients

Upon asking if the selected microfinance institutions had branches all over the country, all the managers said ―yes‖. This means that all the institutions had branches across the nation. Due to this, the same procedures were used to collect information about clients across all their branches.

4.4.4 Becoming a Savings and Loans

All the managers answered yes, that the institutions they work with had plans of migrating and transition into becoming a savings and loans in the foreseeable future. With this, there were various strategies in place. Among these strategies were the needs to increase their profit margin yearly, increase customer base and be customer focused in everything they do. These they say strengthen their sustainability and serve to give them upper hand than the other microfinance institutions.

4.5 Mobile Banking and Savings

Mobile banking has become a common place in the Ghanaian banking industry, following the proliferation of microfinance institutions. Due to the traditional susu of which Ghanaians are accustomed to, mobile banking is not seen as a new phenomenon. An objective was to investigate mobile banking and savings as one sustaining factor of microfinance institutions.

4.5.1 Average Client per Mobile Banker

On average, managers were of the understanding that there were 100 to 450 clients per mobile banker. These mobile bankers go to the clients for daily collection and also help in the appraisal of the credit worthiness of a client. This is because they have access to the client everyday and thus have a great input in appraisal processes.

> ―Mobile banking has been one of the most important driving force of this institution. The mobile bankers are doing tremendously well in making new clients and strengthening relationship with old ones. They have contacts on the field and are doing very well.‘‘ Manager 2.

4.5.2 Training of Mobile Bankers

As to whether mobile bankers were trained, all the managers said yes, mobile bankers were trained before they are sent into the field. This was because most of these mobile bankers do not have high level of education. On the frequency of training, the first ever training was given when one is recruited newly into such a position as a mobile banker. As and when training is needed it was also organized for the mobile bankers. They needed to be trained as often as possible because they deal with different people everyday, so as to know how to handle them differently.

4.5.3 Encouraging Savings from Clients

The managers were asked if they encouraged savings from their clients and how they go about doing that. All the managers said they encouraged saving from their customers. To them the encouraging of the clients to save is a means of making money available for others to borrow at an interest rate.

On how they go about encouraging clients to save, there were three main ways they went about doing that. First, the credit officers just talk clients into saving often. They talk to clients on the importance of saving. Second, there are promotions and offers which induce clients to save. Third, there is the work of mobile bankers who go to clients every day to collect their savings instead of clients coming to the banking hall to make deposits.

4.6 Management-Employee Relationship

Good management-employee relationship makes employees work hard to achieve the vision of institution which go a long way to affect the sustainability of the institution. The managers were asked of the relationship between the management and the employees. Four main themes emerged from their explanation of the management-employee relationship.

First, the managers made an understanding that the management could easily be approached and that made it possible for employees to discuss Amy Issue with the management. Strict formal barriers were laced so as to allow the employees feel part of the organization and management to some extent. This brought about cordiality between the management and the employees. This cordial relationship makes employees feel valued and it makes them put in their best for the survival of the organization. The cordiality was even observed as the interview session was happening in one of the institutions where there were smiles on the face of the manager and the employees when communicating.

Thirdly, there was the recognition of employee performance. If an employee out-performs, the due recognition was given to him or her. This made the employees encouraged to work hard for the organization because after all they are appreciated. Bonuses and other benefits were given to highly performing employees.

Lastly, was the ease with which employee concerns were addressed. The swift and easy addressing of employee concerns served to motivate the employee to work since any problem they encounter are addressed and on time. This made the employees work without fear.

4.7 Chapter Summary

This chapter has been presented to follow suit the objectives for the study. In-depth discussions have been made where appropriate and conclusions drawn. The data analysed and discussed have revealed so many findings which are covered in the next chapter.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter is the final chapter of this study. It covers the summary of pertinent findings of importance that the study has come out with and then gives recommendations with bearing on these findings. The conclusion of the study is also given in this chapter, which has its aim to give the reader at a glance what the study was about and what has been achieved.

5.2 Summary of Findings

This section is in five sub sections with each section taking an objective and making clear the key findings that the study has been able to unearth. This means that the key findings are organized under each specific objective. One sub section however is devoted to present the key finding on the profile of the respondents who answered the questionnaires. This is to allow for easy reader comprehension and thus serve to achieve the aim of coherency in this study.

5.2.1 Profile of Respondents

Due to the nature of work that these financial institutions do, they usually require higher qualifications and all the mangers had tertiary education. The study came out with the finding that the managers had worked with their respective institutions for more than five years. These background profile data proved crucial as it affected the study in a positive manner because of the years of working with the institutions and the reliability of the data provided by the respondents.

5.2.2 Strategies of Keeping Microfinance Institutions in Business

It was revealed by this study that there are other sources of finance for microfinance institutions such as Treasury Bills, Bonds and real estate investments. These were found to augment the traditional activity of lending through which these institutions make profit. Relationship between clients and these microfinance institutions was found to be cordial and customer oriented with the aim of making the customers happy. This had implication for performance and sustainability as it induces the customers to continue working with them.

Group lending was also a common place among the institutions. This is where loans are given to groups of individuals which serve as security against default since each member of the group makes sure that the members pay back the loans. If even one member fails to pay, the group will be denied access to credit if they need money. This makes the institutions get their monies back and helps with sustainability. The study found that with group lending, no collateral was taken but with the individual lending, collaterals are sometimes taken in the form of landed properties. The institutions were found to always interact with their clients and monitor if loans are not diverted from purpose for which they were given out.

5.2.3 Life of Microfinance Institutions

As an objective of this study, the life or existence of these institutions was inquired into as to how they manage their customer base and the means through which information on clients as well as contractual agreement coupled with the vision of the institutions contribute to survival. It is a common place that visions will keep the institutions goings as it provides focus and direction.

This study found that there was enough information about the clients that these institutions serve. This information was gathered through questioning the clients and also from previous institutions that the customers have worked with before. Contractual agreement with clients was usually with terms and conditions of repayment and other legal issues.

It was unearthed that all the microfinance institutions had branches scattered across the country and with the aim of transitioning into becoming a bank one day. This vision keeps them going even against all odds.

Mobile banking is practice by all the institutions with trained mobile bankers who undergo retraining as and when needed and necessary. Customers are encouraged to save through education and promotions as well as offers on their savings. These were found to positively affect the savings of the clients.

5.2.4 Management-Employee Relationship

On the objective of the management employee relationship, it was found that the employees highly considered easily approachable management as a good relationship and allowance not paid on time as bad relationship. Cordiality between management and employees and the recognition of performance achievement of employees were catalysts for institutional performance and sustainability as the employees were induced by such relationship and recognition to perform to sustain the institution.

5.3 Recommendations

Having in light the key findings of this study, the following recommendations are made in respect to the major objectives;

Keeping Microfinance Institutions in Business: It is recommended that the institutions continue to look to the other sources of financing their business as relying only on the traditional lending activity may not always lead to success.

Investment in Treasury Bills and Bonds among other means should not be downplayed. It is also recommended that cordiality in relationship be between employees and customers be maintained having the customer interest in mind.

Long term Life of Microfinance Institutions: Group lending is encouraged as it serves as a security against default. However, the interaction between the groups and the institutions should be intensified so that group members conform to agree upon regulation in group lending. There should be regular update on the informational data base of clients so as to track changes especially with repayment issues.

It is recommended that savings be encouraged from customers against all odds. This will serve to make credit available to other customers who need it for other businesses. Again this will serve to influence the customer base and enhance performance and sustainability.

Management Employee Relationship: It is advised that management pay employee bonuses and on time. This serves to motivate the employee to work hard to influence institutional performance. Paying enough salaries and being an easy to approach management serves to increase performance.

5.4 Conclusion

The study set out to investigate the factors that enhance the performance and sustainability of microfinance institutions in the Ashanti Region of Ghana, specifically Kumasi. The study found that good employee-client relationship serves to affect the performance and sustainability of the institutions in a positive way.

Group lending was also used as security against default- the main cause of failure of financial institutions. This group lending as security helped fought against default.

Client monitoring and interaction was found to be influential in sustainability of microfinance institutions as well as the use of mobile bankers. Cordial management-employee relationship was also found to influence performance of these institutions. This study makes an understanding in part that the performance and sustainability of these microfinance institutions are based on relationships between clients and employees as well as between employees and management. Both of these influences performance and hence profit leading to sustainability.

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APPENDIX – INTERVIEW GUIDE

ANALYSIS OF THE FACTORS THAT ENHANCE THE SUSTAINABILITY OF MICROFINANCE INSTITUTION IN KUMASI: A CASE STUDY OF TWO SUCCESSFUL MFIs IN KUMASI.

I am a student at the KNUST School of Business, Kwame Nkrumah University of Science and Technology. As part of the programme, I am conducting a research on the above topic. You are kindly requested to read through the items and respond to the questions as objectively as possible. Information provided shall be treated confidential. Thank you very much.

Background Profile of Managers

1. Sex
2. Level of education
3. Number of years of working in present outfit

Strategies of keeping Microfinance Institutions in Business

4. Source of finance apart from on-lending with interest
5. Relationship with clients
6. Group lending
7. Organizational interaction with groups
8. Monitoring of clients

Life of Microfinance Institutions

9. Information about clients
10. Contractual agreement with clients
11. Institutional branches of management of information about clients
12. Becoming a bank in foreseeable years

Mobile banking and Savings

13. Average client per mobile banker

14. Training of mobile bankers

15. Encouraging savings from clients

Management-employees relationship

16. Would you please describe the management-employee relationship?

Thank You