ARE MICROFINANCE INSTITUTIONS LOOSING FOCUS?

AN EXAMINATION OF SELECTED MICROFINANCE INSTITUTIONS IN TECHIMAN MUNICIPALITY

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 acknowledgment has been made in the text.

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Abstract

The traditional approach to microfinance in Ghana is humane. It focused more on the poor class and poverty reduction but lack appropriate saving facilities that offer a combination of security of funds, liquidity, positive real return and convenience. With the advent of liberalisation and the new institutional economic perspectives, emphasis is increasingly being shifted from the poverty reduction objective to institutional sustainability, which employs the market mechanism. As a result financial system approach which presents real positive returns is gradually dominating microcredit and small savings thereby relegating the poor clients to the background. The study explored the activities of selected MFIs. Given the trade-off between institutional sustainability and the poverty reduction objectives the project also integrated the two objectives by selecting best practices of traditional and modern approaches which aimed at making microfinance interventions more appropriate to rural communities in Ghana. The study however upheld poverty reduction as ultimate objective of microfinance. Institutional sustainability is deemed to ensure that the poverty-reduction objective of microfinance is achieved.

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GENERAL INTRODUCTION

1.0 BACKGROUND

Broadly speaking, microfinance for loans (i.e., microcredit) is the provision of small scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to poor people for self-employment, often with the simultaneous collection of small amounts of savings. How "small" and "poor" are defined affects what does and does not constitute microfinance. "Microfinance" by its name clearly is about more than just credit, otherwise we should always call it microcredit (Yeboah, 2007). Savings products, remittances, transfer services and insurance are becoming popular innovations in the suite of services offered by financial institutions for the poor. In fact, it is no longer exclusively institutions for the poor which offer microfinance services. Commercial banks and insurance companies are beginning to go downscale to reach new markets. Consumer durables companies are targeting the poor with microcredit schemes and even Wal-Mart is offering remittance services (Karlan et al, 2006).

The international Year of Microcredit 2005 underscores the importance of microfinance as an integral part of our collective effort to meet the Millennium Development Goals. Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs (Annan, 2003).

A working definition adopted by ISSER (1979) stated that poverty is the lack of access to basic necessities of life including food, clothing and shelter. By extension, poverty is attributed to lack of access to both economic and social services. Like most of the world's developing countries, poverty in Ghana is a rural phenomenon. Out of 35% of Ghanaians classified as poor, 75% lived in the rural areas (World Bank, 1995). Rural poverty is estimated to contribute approximately 90% to national poverty (Oduro, 2001). More than one-half of the population living in the rural Savannah regions of Ghana continues to be extremely poor. Poverty is highest among self-employed house-holds cultivating agricultural crops and has decreased only slightly compared to self-employed households engaged in export-crop agriculture and wage employees in the public and private sectors. In spite of these, agriculture, which is mainly rural-based and the core of the Ghanaian economy, remains the principal sector for the development and growth of the economy. The importance of the rural sector to the economy and the extent of poverty in this sector make the application of microfinance interventions essential.

While microfinance alone is not a panacea for poverty and related development challenges, it can play an important role in making these and other sustainable contributions to the community. The use of microfinance as a major strategy for poverty reduction in developing countries, which includes Ghana, is increasingly being perceived as an effective tool for rural poverty reduction among the development community. This perception has resulted into much support for the increase of resources to the microfinance industry. According to Morduch (2000), few recent innovations have held so much hope for reducing poverty in developing countries as microfinance. Indeed, microfinance has become one of the crucial driving mechanisms towards achieving the Millennium Development Goals (MDGs), especially concerning the target of halving extreme poverty and hunger by 2015 (Fernando, 2004). Microfinance has the capacity not only to reduce poverty, but to develop the institutional capacity of microfinance institutions to efficiently and effectively provide sustainable financial services to poor households who are otherwise excluded from the formal banking system for lack of collateral.

1.1 PROBLEM STATEMENT

The traditional approach to microfinance is altruistic. It includes traditional kinship networks, Revolving Savings and Credit Associations (ROSCAs), Solidarity groups, Self help projects and "susu". It focused more on poverty reduction but lack appropriate saving facilities that offer a combination of security of funds, liquidity, positive real return, and convenience (i.e. institutional sustainability). With the advent of liberalisation and the new institutional economic perspectives, emphasis is increasingly being shifted from the poverty reduction objective to institutional sustainability, which employs the market mechanism and basically assumes that access to microfinance services results in poverty reduction (Moll, 2005). Due to competition, the financial system approach to microfinance is very likely to dominate microcredit and small savings and thereby relegating the poor clients to the background.

Given the trade-off between institutional sustainability and the poverty reduction objectives, this project seeks to integrate the two objectives by selecting best practices of traditional and modern approaches to make microfinance interventions more meaningful to rural communities in Ghana. This micro-financing model is not being proposed as a definitive formula for successful micro-financing, but rather a guideline to inform and be adapted to the specific microfinance contexts that characterize the Ghanaian rural communities.

1.1.1 Research questions

1. What are the strategies adopted by microfinance institutions?
2. What factors are likely to marginalize the poor from microfinance services?
3. What are the challenges faced by beneficiaries of microfinance products?
4. What key factors must be taken into account when designing microfinance products?
5. What collateral substitute can be used by the poor to secure loan?

1.2 GENERAL OBJECTIVE

The study aims at developing a model that makes microfinance intervention more appropriate to the poor in Ghana.

1.2.1 Specific Objectives

In order to achieve the main objective, the study concentrates efforts on achieving the following specific objectives:

1. To examine strategies adopted by microfinance institutions.

2. To determine factors which are likely to marginalize the poor from microfinance services.
3. To identify challenges faced by beneficiaries of microfinance products.
4. To determine key factors that must be taken into account when designing microfinance products.
5. To explore substitutes for collateral from clients.
6. To suggest strategies and make policy recommendations for practitioners and policy makers to help understand appropriate financial services for the poor.

1.3 RELEVANCE OF THE STUDY

Microfinance is increasingly being perceived as an effective tool for rural poverty reduction among the developing community (Fernando, 2004). The outcome of this study will build a model that incorporates two objectives (sustainability and poverty reduction) to make microfinance interventions more appropriate to rural communities in Ghana. It will ensure that microfinance practitioners look beyond access and ensure services are adapted to the economic and social status of service users. For the practitioners and policy makers, increased understanding of the target market, needs of the poor and the local organizational setup can help in the design of financial services better suited to the needs of the poor. It would also assist MFIs in developing credible internal information systems that would inform strategic decisions based on both financial and social performance data. The information will also provide guideline to inform donors to develop internationally comparable benchmarks on poverty outreach and further provide insights as to who is being served in terms of their living conditions and poverty levels. It will also provide guideline for allocation of public funds to supporting microfinance institutions (Simanowitz, 2003). Finally, the research would contribute to knowledge and literature by proving information particularly the right approach and microfinance best practices towards poverty eradication which could be used by researchers for the purpose of making analytical comparisons of the MFI sector in Ghana.

1.4 SCOPE OF THE STUDY

Due to financial, time and logistical constrains, the study focused on the rural setting of Ghana, specifically case study of selected microfinance institutions in Techiman municipality. Meanwhile about 67 percent of the country's poor live in the rural areas and has a high concentration of informal economic activities (USAID, 2002). Also Techiman municipality is being considered for the project because it is the fastest growing commercial town with varied levels of informal sector activities converging from the North and South of the country. The majority of the people who are at the lower end of the economic ladder are engaged in micro and small – enterprises for their survival (World Bank, 2006).

In terms of content, the study examines strategies adopted by microfinance institutions in their activities. It seeks to find out if products of MFIs are suited to the needs of the poor and challenges faced by beneficiaries of Microfinance products. It also seeks to investigate the actual beneficiaries of Microfinance products. The study looks at aspects of the methodology design of microfinance programmes that may act to exclude the poorest and possible collateral substitutes. The study examines the key factors that need to be taken into account when designing Microfinance products. Finally the study delves into the trade-offs that MFI needs to make between its poverty mission and effectiveness and efficiency as an organization.

1.5 ORGANIZATION OF THE STUDY

The project report is organized into five chapters. The general introduction of the study was presented in chapter one which detailed out the background, problem statement, objectives, relevance of the study, scope and limitations of the study. The second chapter reviewed theoretical and analytical issues. Chapter three deals with the methodologies employed in information gathering and explore the profile of the organization under study. Project findings were discussed in chapter four. Finally, the summary of findings was presented in chapter five followed by recommendations towards a model that makes microfinance more appropriate to the poor in Ghana.

1.6 LIMITATIONS OF THE STUDY

There was difficulty in communicating with the clients since most of them could not speak or understand English and the researcher could also not understand their local language. Notwithstanding this, an interpreter was employed to facilitate easy communication. Some of the clients were not willing to share information with us. But the purpose for the information gathering was explained to them and those willing to share information with us were considered.

CHAPTER TWO

THEORETICAL AND ANALYTICAL ISSUES

2.0 INTRODUCTION

African microfinance is as diverse as the continent itself. Arrays of approaches have been used, ranging from traditional group-based systems, to specialised lending by banks (Calgagovski et al, 1991). This study endeavours to portray importance of microfinance to rural communities in Africa, given that most African economies are agro-based and employ a large proportion of the labour force. The microfinance industry, however, is imperceptibly shifting emphasis from poverty reduction to the sustainability of microfinance institutions. Given the trade-off between sustainability and the poverty reduction objectives, this study seeks to build a model that incorporates the two objectives by combining best practices of traditional and modern approaches to achieve a synergy that makes microfinance more fruitful to rural communities. Certainly, traditional methods need to adapt to the modern context, but where they can be rendered more efficient and benefit from modern innovation, they should not be replaced (Humphreys et al, 1991). When people rely and build on traditional knowledge and values, it is easier for them to go further and learn more because their knowledge base builds on a secure foundation rooted in their own identities and society (Calgagovski et al, 1991).

This section reviews different modalities of delivering credit to the poor from across the world, the roles government should play in providing financial services to meet the needs of the poor and issues that need to be taken into account when thinking about microfinance for the poor. In this case the review examines six aspects:

- The roles government should play in providing microfinance services
- Microfinance in the global context
- Shift from poverty reduction to institutional sustainability
- Factors that may marginalize the poor from microfinance services
- The key principles that need to be considered when designing microfinance products
- Impact assessment for the poor in microfinance

2.1 THE ROLES GOVERNMENT SHOULD PLAY IN PROVIDING MICROFINANCE SERVICES

An enabling environment for microfinance is critical, especially maintaining a stable macro-environment where both interest rates and inflation are kept at reasonable levels. Government regulations and policies are needed to create an appropriate environment for the growth of the sector, where regulatory policies strike a balance among protecting the interest of depositors, supervising microfinance institutions and not excessively regulating the sector with unnecessary red tape (Zeller, 2003). The poor who borrow, most of whom are in rural areas face greater obstacles than the non-poor who borrow. They are often small farmers. They are often women. They often lack education and health services, are primarily dependent on agriculture, and support larger families. Their poverty is due not only to a lack of access to financial services, but also to a lack of access to infrastructure, markets, improved agricultural technology, and social services such as health and education (IFPRI, 2002). Ensuring that these elements exist is the responsibility of the government. Without them, credit access is likely to have a negligible impact on poverty.

In Malawi, farmers who borrowed failed to become better off than those who did not borrow, mainly because of land scarcity and a lack of high-yielding maize seed (IFPRI, 2002). Farmers also found it difficult to make profits given the relatively poor market conditions they faced for their goods. If poor farmers are to use financial services to make profits and develop new market niches, they require better agricultural technology, extension services, and well-developed local markets that are well integrated with the rest of the economy. In fact, two of the main reasons why the poor do not borrow are their lack of profitable investment opportunities that could carry the cost of the loan and their inability to risk indebtedness. A conducive environment could remedy both of these problems. It is therefore essential that governments develop the necessary infrastructure in rural areas, liberalize markets, and implement other policies to support market integration.

2.2 MICROFINANCE IN THE GLOBAL CONTEXT

It is widely recognised that microfinance constitutes an effective strategy for poverty reduction. This recognition has culminated in increasing support for the allocation of larger amounts of public resources to the microfinance sector of most developing countries. However, most of the innovations of the new-school microfinance initiatives that have produced impressive results in the microfinance industry have largely occurred in Latin America and Asia and not in Africa (Zeller, 2003). For instance, the two main variants of microfinance institutions, 'Grameen Model', which practices a subsidised programme and the 'Bank Rakyat Indonesia (BRI) model' that endorses commercialization, that are deemed to have recorded spectacular results are located in Asia. Among other reasons, Zeller (2003) has noted that successful pioneers in rural microfinance, such as BRI, Association for Social Advancement (ASA), Bangladesh Rural Advancement Committee (BRAC), and Grameen Bank are located in areas with a high share of irrigated cultivated area, regions of high population density, economic heterogeneity and relatively good infrastructure that enhance agricultural technology and output markets. Additionally, improved macro-economic conditions in many Asian and Latin American countries have raised profitability of interventions, especially in agriculture.

To be an effective poverty-reduction tool in Africa, it is important that microfinance interventions adjust to the particular political, economic and cultural background in which they operate, bearing in mind that there is no universal design for microfinance schemes. Emphasis should be placed on identifying strategies that make microfinance relevant to realities in Africa. Zeller (2003) adds that specific features of rural areas and of agriculture in Africa, makes it imperative to consider the diversity of economic contexts and the differing levels of political, social and economic environments and how various types of microfinance institutions can adapt to local conditions. Ismawan (2002) stressed the importance of considering microfinance as a global concept which needs to be localised in accordance with community traditions, values and practices. Failure to do so may cause microfinance to be an 'alien' concept to the local people and render it ineffective.

2.3 SHIFT FROM POVERTY REDUCTION TO INSTITUTIONAL SUSTAINABILITY

To understand the current nature and characteristics of microfinance, it is important to examine how development ideologies and perceptions of poverty have influenced microfinance institutions and interventions over time. Three major waves regarding the provision of microfinance services can be identified in close conjunction with changes in development thinking. The first wave relates to the provision of heavily subsidised credit during the 1950s to the 1970s in the agricultural sector. This move was inspired by the idea that widespread shortage of credit constituted the major constraint to the agricultural sector which happened to be the backbone of most developing countries (Yaron, 1992). The dominant thinking during this period pointed to development as being state-led. This period was dominated by the meritocratic explanation of poverty. According to Morduch (2000), received wisdom and the general perception of the poor during this period portrayed them as ignorant of the means of getting themselves out of poverty and did not work hard enough. In addition, with emphasis on industrialisation as the driver of development during that period, microfinance (then microcredit) encouraged the adoption of new technology, including agricultural mechanisation (Morduch, 1999). Microfinance reflected the top-down and supply-driven ideas prevalent during that period.

The second wave begun in the 1980s with the realisation that the poor were not ignorant after all and that they were entrepreneurs who needed an institutional environment that would permit them to participate in the development process (Chamlee-Wright, 2005). The structural explanation of poverty was in vogue: poverty was mainly a result of the market game and the unfair distribution of resources in society (Khandker, 2004). This new thinking led to the increased realisation of the multiple and complex financial requirement of the poor. Household and livelihood dynamics gained increased relevance in microfinance to the extent that the issue of fungibility, which hitherto was perceived as a hindrance in targeted financial interventions, became an important strategy for microfinance service users (Hulme, 1997). Microfinance industry was characterised by NGOs' involvement and entailed provision of financial services to create income-generating activities in mostly non-farm sectors of rural economies.

The third and the current wave started with the permeation of the ideology of liberalisation into most developing countries. This development, together with the Microcredit Summit of 1997 spawned a redefinition of the concept of microfinance: movement from delivery of microcredit to the idea of financial intermediation (Khandker, 2004). During this period, insights from the new institutional economics that emphasised the dominant position of institutions in development emerged (Moll, 2005). The financial systems objective then emerged alongside the poverty reduction objective and gradually begun to have dominance over the latter objective of microfinance. Microfinance then changed: unlike former microfinance institutions which were mostly altruistic, this new concept of microfinance is inspired by a profit motive. In other words, this implied bringing microfinance in line with the principles of liberalisation: permitting the relatively free rein of the market mechanism.

With financial system approach, the major objective of microfinance is to ensure the sustainability of microfinance institutions. This essentially meant operating microfinance on commercial basis to attract private and corporate capital into the industry to increase outreach, that is satisfy the huge demand for financial services by the poor. It is envisaged that increased competition among institutions would culminate in more efficient techniques of financial service provision which would ultimately translate into improved services to the poor.

It should be reiterated that that the original and still relevant objective of microfinance, particularly in developing countries, is to ensure or at least contribute to poverty reduction. The argument of the financial system approach is based on the implicit and often flawed assumption that access of the poor to financial services will translate into poverty alleviation. This perception of microfinance has generated some catchy phrases like 'financial inclusion' and 'access to credit, a human right' Dichter (2006) questions how credit could be conceived as a human right without recognising the dangers of debt. It is not uncommon to find borrowers taking money from moneylenders at ridiculous interest rates to pay off microloans with the belief that they would be offered larger loans. This practice leads to the danger of a debt spiral, where borrowers get deeper and deeper into debt.

To ensure that microfinance functions as a poverty-reducing tool, it should go beyond mere provision of credit. Perhaps, ensuring a fit between microfinance services and the condition and circumstances of service users might be more useful for alleviating poverty. Microfinance institutions ought to pay more attention to the fact that borrowers have different needs and requirements in different economic and social contexts and that a more diversified approach to the provision of microfinance is paramount for poverty alleviation (Sanderatne, 2002).

The state of knowledge regarding the impact of microfinance on poverty is mixed (Armendariz de Aghion et al, 2005). To add to the confusion, is it pertinent to note that most literature on impact has been gleaned from previous microfinance institutions that did not have that explicit agenda of profit-making. Microfinance institutions need more critical of the statement ‘microfinance works’ by asking ‘which microfinance techniques work and under what circumstances?’

Liberalisation thrives best under a regime of competition and is also perceived as the pillar upon which liberalisation is built. Competition is expected to stimulate innovation, engender efficiency and cause prices to be lowered. Consumers ultimately benefit from price reduction, more choice and better products. Unfortunately, in most rural areas of Africa, especially Ghana, there are too few microfinance institutions to provoke that spirit of competitiveness, a vital ingredient necessary to make commercial microfinance more responsive to the poor. For instance, in West Africa, demand for microfinance services greatly exceeds supply and consequently choice among financial services is extremely limited. In situations where microfinance institutions enjoy monopoly, high commercial interest rates can be a source of exploitation of service users (Johnson et al, 1997).

2.4 FACTORS THAT MAY PREVENT THE POOR FROM MICROFINANCE SERVICES

There are specific factors that tend to lead to the marginalisation and exclusion of the poor from microfinance services, and therefore microfinance require specific focus on the poor. There are norms in society that lead to the poorest being regarded as inadequate and incapable of achieving and this is reflected in self-perceptions by the poorest, perceptions of the wider community, perceptions of MFI field staff, and perceptions in MFI management and the microfinance industry. By not adopting a specific "poorest focus", MFIs tend to reflect these patterns that lead to the marginalisation of the poorest (Simanowitz, 2001). These patterns are summarised below:

2.4.1 Self Exclusion:

Poor people's lacks of confidence constraints their capacity to believe the programmes can be beneficial to them (Simanowitz, 2001). Grameen and others therefore stress the importance of motivation, and of creating a culture whereby the programme is seen to be serving the poorest.

2.4.2 Exclusion by Other Members:

Exclusion particularly in group-based lending (solidarity groups, self-help groups, villages banking, cooperatives) where there is an incentive for stronger people in the community to exclude the poor. There is very often a negative perception by the community of the poor (useless, lazy, unlikely to be able to repay a loan) resulting in the fact that other members do not want them in their group. This is particularly apparent where a group guarantee system is operated, and group members are encouraged to select out any person who may be a bad credit risk (Simanowitz, 2001). There is therefore a challenge to MFIs to create a culture which both promotes the participation of the poorest, and provides support to ensure that the vulnerability of the poorest does not lead to their experiencing problems and leaving the programme.

2.4.3 Exclusion by Staff:

Loan officers may have explicit or implicit incentives to exclude the poorest. This may be based on a perception that the poorest are problematic and will create an increased work burden. Where this is combined with an organizational culture and incentive schemes emphasizing sustainability targets above the need to work effectively with the poorest, loan officers will focus on achieving greater productivity, increasing portfolio outstanding, reaching larger number of clients, and identifying clients capable of taking greater amounts of credit (Simanowitz, 2001).

2.4.4 Exclusion by Design:

Many aspects of the methodology design of a microfinance programme may act to exclude the poorest. These may include entry fees, rules that exclude people who do not have an existing business, inappropriate loan terms, providing services from central offices rather than in community based situations, other aspects of programme design may not exclude the poorest, but may be biased towards the needs of the better off or may impact more negatively on the poorest (Simanowitz, 2001).

In an increasingly "client-led" environment, failure of MFIs to be "poorest sensitive" can inadvertently lead to programmes becoming designed not to meet the needs of the poorest. MFIs listen to their clients, but their clients are not the poorest who they hope to seek. The poorest are either excluded from the programme, or if are present, are marginalized and their voices are not heard above those of the better-off (Imp-Act, 2001).

2.5 KEY PRINCIPLES THAT NEED TO BE CONSIDERED WHEN DESIGNING MICROFINANCE PRODUCTS

Perhaps the most important factor to consider in increasing access to financial services to the poor is that programs must fit the specific context of a particular area and its population. Blindly replicating successful programs will not work, as there is no blueprint for success (Simanowitz, 2001). A lending approach that succeeds in one context may not bring positive results in another. For example, the poor generally lack traditional forms of collateral, so microfinance institutions must find collateral substitutes based on local conditions to greatly improve credit access. Likewise, repayment arrangements should be based on local production cycles. Although group lending and joint liability have ensured high repayment rates at low cost in Bangladesh and other countries, they have not been effective in Malawi (IFPRI, 2002). Peer monitoring may not function well for various socioeconomic reasons, and there may be social costs to applying peer pressure. In Malawi joint liability caused some members to default based on un-willingness, not inability, to repay. In fact, in many cases groups actually performed better when they did not expect joint liability to be enforced. Therefore microfinance institutions should avoid standardizing services excessively even within countries. They may need to decentralize their decision making and service delivery. Innovation in fact will have to consist largely of adapting organizational set-up, structure, and conduct to local settings. Microfinance institutions will need to adjust their services to the local occupational patterns, household spending and savings behaviour, culture, resources available, agro-ecological characteristics, division of labour by gender, and historical experience.

2.5.1 Promote Networking and Cooperation

Collective and cooperative support is a critical microfinance strategy at both the local level, in the form of solidarity groups, and at the national and regional level in the form of networking groups. National and international actors should reinforce cooperation and coordination among actors at all levels in the design, management, and assessment of microfinance initiatives. Mechanisms should be created for the exchange of knowledge and experience among African microfinance practitioners, including the use of the internet, dissemination of written material, field level practitioner exchanges, and best practice workshops (Calgagovski, 1991). Regional coordinating committees and sub-regional conferences can bring together microfinance policy makers, leaders, and representatives from bilateral, multilateral and intergovernmental development partners to access and compare microfinance progress. Coordination among various microfinance actors also ensures complimentary rather than competing policies. Collective organization has several advantages in microfinance initiatives, the foremost that they pool together human and material resources.

In Africa, group organizing has proven itself an effective strategy for MFI sustainability that Africans are especially predisposed. Group formation for individual and community goals is a pre-existing, "homogeneous" mode of organization in Africa that already operates in traditional financial schemes and is readily adaptable to new microfinance initiatives. The group has proven especially effective in the rural setting, where 80% of Africa's population reside (World Bank, 2006). The relative isolation, small size, and common resources of villages engenders a mentality and approach to problems that are seen as mutual rather than individual (Simanowitz, 2001).

MFIs can utilize and support groups with regular meeting to reinforce group solidarity, discipline, and consistent repayments. Groups are especially effective for educating and training microfinance participants, enhancing networking and information dissemination. They are also an important participatory tool that can reduce administrative cost by giving certain responsibilities, such as loan monitoring, to the members themselves. Typically, small group size is more effective to ensure that members genuinely know and trust each other (Simanowitz, 2001). Microfinance group members are typically more ready to take ownership for and support microfinance initiatives. Mutual trust and peer pressure within savings and credit groups ensure participation and repayment in microcredit programmes. The support and strength of a group often raises community consciousness and creates a common infrastructure to solve problems common to all. For instance the group system helps in pooling local knowledge and resources for initiatives such as bulk purchasing, transportation, collective bargaining, and common infrastructure development like water pumps, health care, and education schemes.

Groups empower individuals to support each other not just financially, but also emotionally. The group impresses upon members that they are not alone or helpless, but can rely upon the support of their community, and cultivate self-esteem through contributing to each other. This non-material benefit is an important resource, especially during individual or collective crisis (Calgagovski, 1991).

2.5.2 Involve Local Knowledge and Participatory Planning

Microfinance initiatives that recognize and build upon local knowledge and tradition are more culturally compatible and hence sustainable with the local community (Underwood, 2000). People feel more familiar and comfortable with concepts that borrow from their own tradition; this, in turn, improves MFI acceptance and outreach. Microfinance approaches rooted in local culture are also more participatory because clients are more ready to identify with and thus participate in the financial decisions and actions shaping their lives. As a result people become more involved and committed to the sustainability of the microfinance initiatives, assume ownership and responsibility for their development. As already noted, the group methodology is an important indigenous institution. Traditional and informal African savings and loan schemes include, *Ekub* in Ethiopia, *Tontines* in Cameroon and Niger, *Esusu* in Nigeria, *Susu* in Ghana, *Gameya* in Egypt, and *Sanduk* in Tunisia. These schemes are based on traditional knowledge and values, and microfinance initiatives that build upon them can count on legitimacy, accountability, and self-enforcement (Calgagovski, 1991).

2.5.3 Reinforcing Microfinance to Advance the Private Sector

Microfinance and microenterprise are critically linked; microenterprise development is an essential extension of microfinance schemes. If microfinance is to have a sustainable impact on poverty eradication, it must eventually scale-up into creating a private sector of entrepreneurs who function in the formal economy. In other words, microfinance has the potential of formalizing the informal sector, empowering micro-entrepreneurs to participate and benefit from the formal economy (Humphreys, 1991).

Microfinance can support initiative for direct supply and market linkages to small and medium businesses targeting promising micro-entrepreneurs in non-traditional, low volume but high value-added products in potential niche growth areas of the economy. Such an approach could reach existing micro-entrepreneurs who are seeking to graduate from the survivalist profile of microenterprises into a more secure and productive foothold of the formal sector of the economy. It would expose microenterprises to larger enterprises "higher up the chain", encouraging forward and backward linkages with established companies. Targeted micro-entrepreneurs can potentially develop, produce, and perhaps market low-volume but higher profit products, expand, and take on additional employees, thus scaling-up (Humphreys, 1991). This potential, however, is contingent upon a supportive environment at all level and among all actors, supporting business incubation and expansion. For example, at the local level, regulation and standards among MFIs and their respective microenterprises can lend legitimacy to these initiatives, while networking among MFIs can provide a lobby platform to propel enterprises stemming from microfinance into the formal economy.

MFIs can work together to ensure that governments and donors do not support organizations that undermine the market for microfinance services and microenterprises by subsidizing loans. At the national and international level, actors can promote legislation, business services, and infrastructure to enable African micro-entrepreneurs and producers to increase market opportunities, technical know-how, and management. Government policies are often biased to the formal and urban sectors of the economy, pre-empting opportunities for informal and micro-entrepreneurial initiatives to scale up into the private formal sector. Taxation schemes should be fair, progressive, and economically efficient, with particular sensitivity to the vulnerable sectors of the economy which microfinance serves and in which microenterprises operate (Hussain, 2000).

2.5.4 Ensure Operational Efficiency

Leaders of African microfinance institutions stressed that practical and efficient operation is essential in achieving self-determined development, as well as accountability to clients as well as donors (Hussain, 2000).

2.6 DESIGNING MICROFINANCE PRODUCTS

The extent to which micro-finance programmes are able to reach the poorest of the poor with their services is still an open debate. The argument that microfinance is not effective for the poorest is generally based on a circumstantial evidence that most MFIs don't reach the poorest. There is little real evidence of MFIs making a concerted effort to reach the poorest and failing in this endeavour (Simanowitz, 2001). Indeed the little experience documented of those organisations that have been serious in their efforts have generally shown positive impact on the poorest. Few MFIs are specifically designed to meet the needs of the poorest. Those that are trying to meet the needs of the poor have mostly taken as their starting point the objective of building a financially sustainable institution, not the need to design services that meet the needs of the poor. This issue of emphasis is important.

Should we be looking first at how to design services to impact effectively on the livelihoods of the poorest, and then look at how to make this sustainable, rather than looking at first how to make an organisation sustainable and then how to adapt this to meeting the needs of the poorest? The following is a list of some of the issues that MFIs may want to consider when thinking about how to design their services for the poorest.

2.6.1 Understanding the Needs of the Poor.

Increasingly MFIs are becoming more "client-driven". Market research is used to understand the needs of clients. If the issues discussed above in terms of listening to the right clients are taken on board, then market research can provide information about the specific needs of the poorest. However, it is also important to see these needs in a broader context. For example, most clients complain that MFIs loans are too long or too short, or that the loan sizes are too small. MFIs do not then automatically change the loan product to suit these requests, but understand these requests in the context of knowledge about the wider market environment, the ability of clients' businesses to generate the revenue required to make repayments etc. Similarly in trying to design services that have an impact on poverty, MFIs need to contextualize their market research information in a deeper and broader understanding. At SEF in South Africa, for example, there was a request by many clients to give individual loans. A "client driven" organization may have responded to this information by piloting an individual loans product. However, SEF's broader understanding through impact assessment work indicated that the group structures are critically important in terms of supporting vulnerable clients and in terms of developing social networks and support. Thus there was a direct contradiction between the data from market research and the understanding from impact assessment.

The use of a conceptual framework helps in the understanding of how microfinance services may link to clients' livelihoods, and the sort of processes by which increased income, reduced vulnerability, increased empowerment etc are achieved. The areas that may be included in this conceptual understanding include clients' economic goals; ways of managing resources and activities in the context of their household economic portfolios; ways of dealing with risk in their day-to-day lives so as to enable a match between products to client's needs (i.e. developing financial products, services and delivering mechanisms that meet their needs).

2.6.2 Designing a Programme that Meets the Needs of the Poor

The following is a list of approaches that MFIs must adopt in order to focus their work on the needs of the poorest.

- ***Target the Poorest***

As discussed above it may be difficult to include both the poorest and better-off within the same programme. MFIs need to be conscious of these issues and design programmes that make sense in their contexts.

- ***Group Based Programmes***

Group-base lending has the potential to provide great benefits in terms of empowerment. This is not automatic, but need to be facilitated. The need to use existing opportunities to build up through groups should be taken into account. There are also opportunities using the group structure to link to other services e.g. health, education, training, HIV/AIDS education.

- ***Include Start-Ups***

Many programmes exclude clients without an existing business, using the justification that they are working with the "economically active poor". This immediately excludes the majority of the poor. Most people are economically active – by definition they are otherwise they would not survive! Obviously there are a small number of dependent people in each community who cannot engage in economic activities e.g. severely physically and mentally disabled.

- ***Flexibility***

It is also important to have flexibility in loan terms and savings. This is particularly important in group programmes where very often all group members must take the same loan size or loan term. In this case the tendency is for the group to take the loan that suits the more powerful members (often the least poor) and the poorest are disadvantaged.

- ***Appropriate Loan Terms***

The length of the loan, the size of the loan and the instalments period must be balanced. Experience demonstrated in SEF's context shows that relatively short loan term and size were more appropriate for the very poor. Poorer members needed flexible and timely products with "bite-size", manageable repayments, and with a regular instalment that helped with cash management. A loan term that is too long leads to increasing chance that the client will have to divert funds away from their business for other uses, which may lead to business collapse. If the loan term is too short this encourages dependency and does not allow for growth of the business.

- ***Increase Loan Size with Business Strength***

Increasing loan sizes should be linked to the client's ability to repay the loan. It is not a big issue with better off clients with an existing secure income source. For the poorest it is important that the loan size only grows in relation to the strength of their livelihood and their income. For many MFIs this is achieved by linking the loan size to the strength of the business. For the poorest it cannot be assumed that the loan will be repaid from existing income. If the loan automatically grows, then there is an increasing gap between livelihood and loan size, and decreasing ability to pay which leads to increasing vulnerability. If there is a link between growing business or other productive assets and loan size then this leads to increasing security and decreasing vulnerability. This also reducing the risk of lending for the MFI and results in fewer problems, arrears and drop-outs.

- ***Loan Use***

There is an argument that money is fungible, clients know best, and therefore MFIs should not attempt to determine how loans should be used (e.g. for productive or consumptive purposes). One can argue that people know and will make right decisions about what they need at what time, so that specifying loan use and other things may lead to an intervention with the way people manage resources. This is fine for the middle poor, but it is a much bigger question for the poorest because of their vulnerability and lack of existing income. There may well be good arguments for insisting that loans are used only for productive purposes in programmes for the poorest, although what is considered "productive" would need to be modified according to context. Also the use of loans for essential non-productive expenditure might need to be considered.

- ***Savings***

Savings are particularly important for the poor, in terms of reducing vulnerability and increasing options. Many programmes use savings as a form of collateral, or have services that do not meet client needs, being public, inflexible and not readily accessible. There is a role for more accessible and private savings that are not linked to borrowing and that can be used to deal with anticipated and unanticipated risks and day-to-day economic stresses.

- ***Sell Micro-Insurance Policies***

In addition to borrowing and savings services, the poor need insurance to protect themselves from uncertainty. In the absence of insurance, the poor often avoid risky but potentially profitable economic activities and enter into informal insurance arrangements or rely on precautionary savings. Some microfinance institutions have begun to offer insurance products. The Bangladesh Rural Advancement Committee offers life insurance contracts to women who live below the poverty line, and Nirdhan, a group-based microfinance institution in Nepal, provides livestock insurance to those who borrow to finance livestock investment. Yet examples like these are relatively rare, and microfinance institutions have yet to tap the potential for innovation in sustainable insurance services. Of the three financial services described here, the largest gap between demand and access is for insurance. The poor face two types of risk: personal misfortune such as illness, accident, or theft, and misfortune that is common to the community, such as drought or flooding. Whereas a personal misfortune would affect only a few people in a village at the same time, a drought or flood would affect almost everyone.

Even though the poor may argue that, "they do not have much income to buy bread let alone set some aside for insurance", they are those hardest hit when misfortune happen, and so must be helped to take up insurance-cover. "Even if now that you are strong at work and earning some income you can't set some aside for the rainy day, how will it be when you lose your source of income or property? Then things will worsen." (Amoah, 2008).

- ***Creating a Supportive Environment***

The poorest are the most likely to experience problems, to drop-out of the programme and experience negative impact. There therefore needs to be an active process to identify who are the people most likely to experience problems and to target support to these clients.

Many MFIs use their first loan as a "testing loan" whereby "problematic" clients are weeded out. When working with the poorest, it is the first loan where inexperienced clients are likely to have problems and leave the programme. It is therefore very important that MFIs retain their clients. The largest cause of lack of microfinance impact is client drop-out and if they are not in the programme you cannot have a positive impact on them.

It is also important to create a supportive environment and culture that anticipates problems and supports. Group-base lending is particularly good at creating this environment, but it is something that must be actively pursued rather than assumed.

- ***Creating a Culture and Incentives within the Organisation***

As MFIs pursue financial sustainability they have been effective in creating an organisational culture that emphasises efficiency and productivity, and have reinforced this culture with incentive schemes that reward the desirable behaviour amongst staff. If organisations are serious about their emphasis on achieving positive impact on poverty, they need to build a similar culture and incentives for this. Given the active involvement of clients in supporting one another, or in expelling "problematic" members, it is important that this culture is developed not just within the organisation's staff, but by its clients. This raises questions about how clients are involved in organisational processes in general, and how much the organisational objectives reflect the priorities of the poor people they seek to serve. More participatory processes to involve clients in organisational governance and decision making may be one way to address these questions. There is little experience of these issues in practice, and this is a key area for future development.

2.6.3 Impact Assessment for the Poor

Impact assessment is important in the process of designing programmes for the poorest in a number of ways;

1) The understanding of how microfinance impacts on the livelihoods of the poorest, and the processes by which this occurs or not is key to the design process of effective programmes.
2) Impact assessment allows for unintended consequences of an organisation's work to be considered, thus connecting the work more closely to an understanding of wider contextual issues.
3) Impact assessment systems that promote organisational learning and management decisions can be a central part of a process of innovation designed to provide services

that meet the needs of the hard-core poor, and achieve positive long-term transformation.

CHAPTER THREE

RESEARCH METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 RESEARCH METHODOLOGY

This aspect of the report deals with the method or techniques and procedures used to obtain and analyse research data.

3.1 RESEARCH DESIGN

The main strategy adopted for doing this research is Case Study. A case study involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence (Robson, 2002). This approach is adopted because the study is aimed at exploring the activities of Microfinance Institutions towards poverty reduction within a real life situation. Multiple cases involving selected microfinance institutions in Techiman municipality were used. The rationale for using multiple cases focuses upon the need to establish whether the findings of the first case occur in other cases and as a consequence, the need to generalise from these findings.

3.2 UNITS OF ANALYSIS AND VARIABLES

Microfinance institutions (MFIs) and their clients are the two units considered for this research. Variables analysed with regard to the institutions were mainly financial products, strategies and approaches. However variables analysed with regard to clients were challenges faced and impact of microfinance on their socioeconomic conditions.

3.3 SAMPLE SIZE AND TECHNIQUE

3.3.1 Microfinance Institutions

The sample frame covers Savings and Loans (S&Ls) schemes and co-operative unions The selections were limited to MFIs that are registered with Ghana Microfinance Institutions Network (GHAMFIN) and willing to share in-depth information. Based on the sample frame, six (6) microfinance institutions were listed but five (5) answered the questionnaire for analysis as shown in the table 3.1 below:

Table 3.1 Sample Size Determination for MFIs

Institution		Provided data	Sample frame	Sample size	Sample fraction (%)
1	FASL	Yes			
2	Sinapi Aba Trust	Yes			
3	Baccsod	Yes	6	5	83
4	Opportunity International	No			
5	Ebenezer Co-operative Credit Union	Yes			
6	Baduman Rural Bank	Yes			

3.3.2 MFIs Clients

In order to accurately reflect the socio-economic conditions of clients, the study focused on clients with a minimum of 12 months experience on the schemes. This was because clients who have taken more than one loan might have experienced economic transformation in their livelihoods thus might be in positions to explain how their needs have been met. Using a statistical procedure as shown below, a total of 100 clients were selected from a total sample frame of 20089. The 100 clients were selected proportionately from each of the five MFIs as detailed in table 3.2. Efforts were made to interview different categories of clients defined by gender, business enterprise and spatial location.

3.3.2.1 Clients Sample Size Calculation

$$n = \frac{N}{1 + N(\alpha)^2}$$

Where

n = sample size = ?

N = sample frame = 20089

α = confidence limit = 0.1

$$n = \frac{20089}{1 + 20089(0.1)^2} = 99.5 \approx 100$$

n = 100

Table 3.2 Sample Size Determinations for MFI Clients

	Institution	Client base	Size
1	FASL	2114	11
2	Sinapi Aba Trust	4300	21
3	Baccsod	7,459	37
4	Opportunity International	3216	16
5	Ebenezer Co-op. Credit Union	3000	15
Total		20089	100

3.4 METHOD OF DATA COLLECTION

3.4.1 Secondary Data

Secondary data was collected from reports and publications. The type of secondary data collected was mainly on microfinance best practices towards poverty eradication. Specifically, documented sources of secondary information include:

- GHAMFIN: This source collects information on Challenges faced by microfinance institutions in areas of strategies for credit delivery, interest rates charged on loans and lack of funds to manage microfinance sufficiently.
- Another source of information was the internet. The study utilized information on the subject matter through publication on the internet. Details of these publications were listed in the reference section after the last chapter.

3.4.2 Primary Data

For the MFIs, the study employed two main survey instruments namely self-administered questionnaire and key information interviews to collect both quantitative and qualitative data from the MFIs. On the other hand, structured interviews were used to collect data from MFIs clients. In line with the objective of the research, thus four types of primary data were collected. The first type borders on the financial instruments (credit, savings, insurance e.t.c). The second includes microfinance design and delivery strategies. The third borders on institutional capacity. These three types of information above were collected from the MFIs. Key informant interviews were also conducted with contact persons from the MFIs in order to gather additional information and also probe for further clarifications on activities of Microfinance Institutions. The fourth type of primary data was provided by MFI clients, which covers challenges that they face and impact of Microfinancial products on their socioeconomic conditions. A total of 100 structured interview guides were used to collect the above information from the clients.

3.5 ANALYSIS AND PRESENTATION

Qualitative and quantitative analytical methods were applied in data analysis. Qualitative analysis includes deductions from statements and field notes through interviews conducted. Quantitative tools such as percentages were used for analysis and synthesis of data. Data was however presented through the use of statistical tables, percentages, charts.

3.6 ORGANIZATIONAL PROFILE

3.6.1 There are many MFIs operating in Techiman Municipality ranging from rural banks, savings and loan schemes to host of credit unions, "susu" companies and financial NGOs all seeking to provide access to financial services with the overall aim of bringing financial empowerment to poor entrepreneurs particularly women. This section will therefore review activities of few of them in order to put their scale of activities in the municipality into perspective.

a) First Allied Savings and Loans Limited ("FASL")

First Allied Savings and Loans Limited is licensed by Bank of Ghana under PNDCL 328(1993), to accept deposits from the public and to provide credit services to businesses and consumers. The company started operation on 25th September, 1996. Through its network of branches, SMS/Mobile banking facilities, and its effective outreach banking services, First Allied has since its inception, been actively providing financial services to its target market which among others include artisans, drivers, farmers, individuals, students and salaried workers. Products offered by FASL include wide range of "susu" products, travel credit, clearance loan, salary credit, consumer credit, community loan and services such as outreach services and western union money transfer.

b) Sinapi Aba Trust (SAT)

Sinapi Aba Trust is an autonomous private, Christian and a Non-Governmental Organisational (NGO) which was established and duly registered in May 30th 1994 under the company's code 1963 (Act 179) as a company limited by guarantee to support the poorest of the economically active poor to enhance their lives through microfinance and basic business training. SAT targets poor entrepreneurs through two main loan products, group loans and individual loans. SAT programme started with individual lending methodology in 1994 and then introduced the Trust Bank (group model) lending methodology in 1996. Currently SAT operates 1,825 Trust Banks in 18 branches in Ghana. However in Techiman municipality SAT has only one branch. Sectorally SAT provides micro and small financial assistance, entrepreneurial training and advice to individuals and groups within micro and small enterprises such as, dressmakers and beauticians, food restaurants/sellers, poultry production and vegetable growers.

Since the commencement of operations in 1994, SAT has extended credit facilities to individuals and Trust Banks in a wide variety of micro and small enterprises with more emphasis placed on assisting women since the women are the backbone of the household budgets. As of the year 2007, SAT has reached out to 51,686 clients with a loan amount of GH¢ 6,730,627 disbursed to them nationwide.

c) BACCSOD

BACCSOD was founded and closely held by the Catholic Church in the Brong Ahafo region as savings and loans unit under paragraph five (1) of co-operative society decree number 252, 1968 with licensed number 6986 with the sole objective of poverty reduction. BACCSOD is now a limited liability company which started operation in the Techiman Municipality in 1980. BACCSOD has 24 branches in Brong Ahafo region with 13 of the 24 branches in Techiman Municipality. The Techiman branch has market size of 7,459. Primarily BACCSOD offers three final products, namely deposit mobilization, consumer credit and micro enterprise credit. It's products target both the poor and the less poor including successful business persons.

d) Opportunity International

Opportunity International Savings and Loans Limited (Opportunity) is a leading micro-finance Institution in Ghana. Opportunity is a member of the Opportunity International Network, a global coalition of organisations dedicated to providing opportunities to people in less developed countries. The Network has forty seven (47) partners around the world.

Opportunity was licensed by the Bank of Ghana in June 2004 and began operating in savings and loans in September 2004. They have a team of dedicated staff that work hand-in-hand with their valued customers to bring holistic change to individuals, families and communities. They are committed to seeing lives transformed through the delivery of high-quality financial and developmental services that are specifically tailored to meet the needs of the entrepreneurial poor.

e) Ebenezer Co-operative Credit Union Ltd

Ebenezer Co-operative Credit Union Ltd started operation in 1995 as limited liability company providing access to credit through guarantee schemes to micro entrepreneurs and training in Business and Financial management.

Ebenezer Co-operative Credit Union Ltd is licensed as savings and loans unit under paragraph five (1) of co-operative society decree number 252, 1968 to provide micro financial service for the poor in the form of small savings and credits. It builds capacity and develops small and micro enterprises. The main objectives of the organization were to handle its savings mobilization and lending operations.

Presently Ebenezer Co-operative Credit Union Ltd has three branches in Techiman Municipality with the Techiman branch having market size of 3000. It is an affiliated member of Ghana Cooperation Unit Association (CUA).

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS

4.1 INTRODUCTION

Project information was systematically analysed along the following lines:

- The first aspect of the project analysis dealt with microfinance products and clients
- The second delved into issues MFIs consider when thinking about designing microfinance products.
- The third aspect explores factors that are taken on board when designing microfinance products
- The next looked at conditions the clients must satisfy in order to access credit.
- The final aspect of the project analysis also explores the trade-offs that an MFI needs to make between its poverty mission and effectiveness and efficiency as an organization.

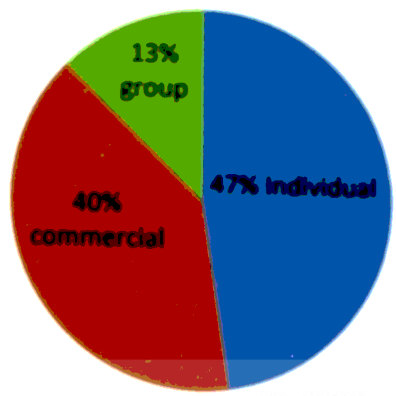
4.2 FINANCIAL PRODUCTS AND SERVICES OFFERED BY THE MFIs

It was once assumed that poor people had no need for financial services, or perhaps needed only credit (IFPRI, 2002). Yet the conditions under which the poor live suggest otherwise. For poor people, risk is familiar and high. Strategies for managing and coping with risk are part of everyday life. Research and experience have shown that the poverty and uncertainty poor people face require diverse financial services (IFPRI, 2002). The table below summarizes some of the micro-financial product and services being offered by the selected MFIs in Techiman municipality.

Table 4.1 Financial Products and Services Offered by MFIs

Institution	**Products**	**Client types**
FASL	Microcredit, Travel credit, Clearance loan, Commercial loan, Savings & Advisory services	Churches, Businessmen and women, Business travellers, Limited liability companies, Transporters, Farmers and market women. e.t.c.
Sinapi Aba Trust	Microcredit, Savings & Advisory services	Enterprises, Artisans, Associations, Farmers, Market women, Individuals e.t.c.
BACCSOD	Microcredit, commercial loan , Savings & Advisory services	Churches, Associations, Enterprises, Artisans, Businessmen and women, Farmers, market women, and e.t.c
Baduman rural bank	Microcredit, commercial loan, Savings & Advisory services	Businessmen and women, Artisans, market women, professionals, Individuals, partnerships, Enterprises and e.t.c.
Ebenezer Co-operative Credit Union	Microcredit, commercial loan, Savings, Advisory services & Advisory services	Traders, Enterprises, Associations, Famers, Drivers, Artisans, Market Women, Businessmen and Women, e.t.c.

Figure 4.1
Loan Portfolio



4.2.1 Some Categories of the Products are Anti-Poor

Commercial loan includes credit extended to businessmen and women, clearance loan, travel loan and limited liability companies. Individual loans are those extended to individual clients including salary workers. Group loan includes credit extended to groups as units. Group members are mostly the poor class including farmers, petty traders and artisans.

Clients such as Churches, Business travellers, Businessmen, Importers and Exporters, Limited liability companies to mention but a few are clearly not poor clients that need microfinance. Also Commercial loan, travel credit and clearance loan are certainly not microfinance products. According to Mr. Appiah Agyarko the manager of Ebenezer cooperative credit union, microfinance for only the poor clients is not sustainable. Commercial loans provide real positive returns required to sustain the institution and also to support the microcredit programme. But from figure 4.1, 40% of total loan portfolio for the MFIs are commercial loans. 47% are individual loans and only 13% constitute group loan. These figures are indication that gradually commercial products are dominating the microcredit and small savings. Due to the issue of sustainability and profit motives as indicated by the manager, the institutions are probably concentrating on achieving greater productivity by identifying the non-poor clients capable of taking greater amount of credit and thereby relegating the poor clients to the background.

4.2.2 Savings to Overcome Difficult Times

Borrowing helps households achieve food security and alleviate their poverty. In times of stress, the poor need to borrow to pay for essential consumption (IFPRI, 2002). According to Alice Kupour the Manager of BACCSOD, savings services are offered not only as means of storing value, but to help the poor people better manage their resources over time and to enable them to plan and finance their investments. Borrowing alone is not enough to pull households out of poverty. In many cases households are too poor and the fluctuations in their incomes and the risks they face are too high for them to rely on borrowing strategies alone. According to her, many poor households are not in a position to take advantage of credit for investing in human or physical capital to increase and diversify their incomes hence savings services necessary.

4.2.3 The Need for Micro-Insurance

Except Ebenezer co-operative credit union, all the MFIs studied do not offer micro-insurance. According to the manager of the Ebenezer co-operative union, they introduce micro-insurance as a new product to protect the poor from uncertainty. Perhaps most important, the poor need access to insurance to lessen the blow when, for instance, a breadwinner falls ill, crops fail, or prices for their products plummet. Yet many microfinance institutions offer no micro-insurance services at all. Even though the poor may argue that, "they do not have much income to buy bread let alone set some aside for insurance", they are those hardest hit when misfortune happen, and so must be helped to take up insurance-cover. "Even if now that you are strong at work and earning some income you can't set some aside for the rainy day, how will it be when you lose your source of income or property? Then things will worsen." (Amoah, 2008).

4.2.4 Monitoring and Advisory Services

It is highly unlikely that a client's expectations will go exactly as plan and it is necessary for the institutions to review progress regularly. The earlier problems can be identified, the better will be the chances of controlling them and providing practical advice to the clients which does not only put the customer on the right tract for a successful business but in turn protect the institutions position. In summary, these are the views of the MFIs managers interviewed. Monitoring and Advisory services also enhance the MFIs image in the eyes of the customers and hence provide evidence to the customer of a wish to understand the underlying business and to be involved in helping solve future problems.

4.3 ISSUES MFIS CONSIDER WHEN THINKING ABOUT DESIGNING MICROFINANCE PRODUCTS.

Table 4.2 Issues Considered in Designing Microfinance Products

Institution	Issues considered
FASL	Impact assessment
Sinapi Aba Trust	Impact assessment & market research
BACCSOD	Impact assessment & market research
Baduman rural bank	Market research
Ebenezer Co-operative Credit Union	Impact assessment & market research

4.3.1 Market Research for Understanding Needs of the Poor

Preliminary and ongoing research is an important investment for microfinance initiatives. Increasingly MFIs are becoming more "client-driven". Mr. Joseph Osei, the deputy manager of Baduman rural bank explained that they carry out market research to factor the needs of the customers into their products. On the other hand, the manager of Ebenezer co-operative credit union Mr. Appiah Agyarko also said they do market research to ascertain the real need of clients. If MFIs could listen to the right clients then market research can provide information about the specific needs of the poor. However, it is also important to see these needs in a broader context. For instance, some clients interviewed complained that MFIs loan repayment periods are too short some also claimed the loan sizes are too small. Some feel under pressure by the constant daily visitation by some MFIs staff to demand loan repayment. Some also feel longer moratorium could help repay loan. This is not to say that MFIs should then automatically change the loan product to suit these requests, but understanding these requests in context provide knowledge about the wider market environment, the ability of clients' businesses to generate the revenue required to make repayments etc. Similarly in trying to design services that have an impact on poverty, MFIs need to contextualise their market research information in a deeper and broader understanding. The use of a conceptual framework helps in the understanding of how microfinance services may link to clients' livelihoods, and the sort of processes by which increased income, reduced vulnerability, increased empowerment etc are achieved. The areas that may be included in this conceptual understanding include clients' economic goals, ways of managing resources and activities in the context of their household economic portfolio, ways of dealing with risk in their day-to-day lives so as to enable a match between products to client's needs (Simanowitz, 2001).

4.3.2 Impact Assessment for Feedback

According to the manager of Ebenezer co-operative credit union, impact assessment is carried out to verify whether the products are improving the life of the clients. Alice Kupour the manager of BACCSOD also said they do impact assessment to ascertain how credit given met needs of clients.

Impact assessment is important in the process of designing programmes for the poorest in a number of ways:

- The understanding of how microfinance impacts on the livelihoods of the poor, and the processes by which this occurs or not is key to the design process of effective programmes.
- Impact assessment allows for unintended consequences of an organisation's work to be considered, thus connecting the work more closely to an understanding of wider contextual issues.
- Impact assessment systems that promote organisational learning and management decisions can be a central part of a process of innovation designed to provide services that meet the needs of the hard-core poor, and achieve positive long-term transformation.

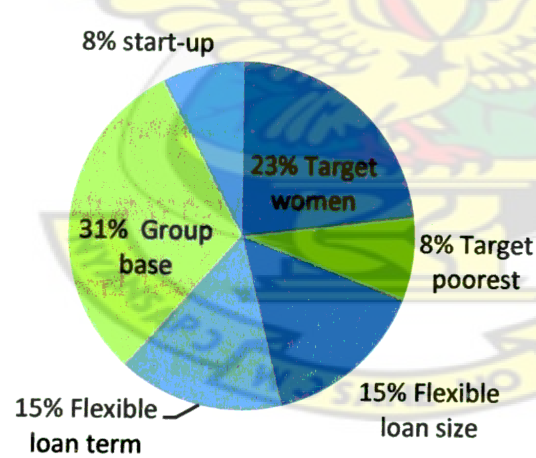
It is important that impact analysis is disaggregated by poverty level. Disaggregating impact assessment must be done in such a way that it looks at the differing impacts on the poorest and the poor (Simanowitz, 2001).

Meanwhile figure 4.3 below shows that 49 percent of poor clients of these MFIs complained of business collapse and heavily indebtedness due to unfavourable repayment periods, unprofitability of their businesses and excessive interest charges. Perhaps lack of knowledge in financial management could also be a contributing factor. 18 percent of clients are also helped by credit to expand their existing businesses or as a start-up capital to start new businesses because they had the right amount of credit and their businesses are also profitable. Continuous impact assessment is as important as market research to provide valuable feedback on the effect of different microfinance products and services that are provided by the MFIs. It helps policymakers, MFIs and donor community to gain better sense of direction they need to take and how they should collaborate to meet the needs of the poor through design of better products and services (Simanowitz, 2001).

4.3.3 KEY FACTORS THAT ARE TAKEN ON BOARD WHEN DESIGNING MICROFINANCE PRODUCTS

IFPRI's research shows that it is most successful when microfinance is designed with a tight and mutually reinforcing fit between the larger financial environment, the mechanism of service design and delivery, and the particular needs of the poor that microfinance institutions serve.

Figure 4.2
Factors Considered for Designing Microfinance Products



4.4.1 Flexibility in Loan Terms

In most of the group programmes studied, only 15 percent of the MFIs included flexibility in their loan terms as shown in the figure 4.2 above. In most cases group members are made to take the same loan size and period. As a result the loan terms rather favour the more powerful group members thereby putting poorest at a disadvantage.

4.4.2 Target Poorest

Figure 4.2 shows that 8 percent of the MFIs have products that targeted only the poorest. They mostly have groups made of mixture of the poor and non-poor. According to the manager of Ebenezer co-operative credit union, Mr Appiah Agyarko microfinance for only the poor clients is not sustainable. The so call well-to-do clients are needed in these programmes to make microfinance sustainable because they can take commercial loans that provide real positive returns and also make regular savings required to store value so that the poorer class can also be catered for.

Meanwhile experience demonstrated in SEF's context showed that relatively short loan terms and sizes were more appropriate for the poor clients. If the loan size is too large, the excess may be used in unproductive ventures thereby increasing their risk of default. A loan size that is too small may not be able to meet demands of the clients and this may lead to default in repayment because the client may not be able to carry on with his business due to lack of enough funds. A loan term that is too long leads to increasing chance of diverting funds for other uses. If the loan term is too short, it encourages dependency and does not allow for growth of the business.

4.4.3 Target Women

Figure 4.2 shows that 23 percent of MFIs design products that targeted women. According to Alice Kupour the manager of BACCSOD, women are more vulnerable in society and therefore needed financial empowerment. More MFIs must target women in their product design for the following reasons:

1. In Africa, women are a better credit-risk than men and more responsible managers of meagre resources. Furthermore, they are more committed to using their loans for the benefit of their household rather than self-gratifying consumption (as common among men).
2. The most compelling reason for MFIs to prioritize women is to assist the poorest, who are disproportionately women (IFPRI, 2002).

4.4.4 Group Base Lending

The poor generally lack traditional forms of collateral, so microfinance institutions must find collateral substitutes based on local conditions to greatly improve credit access of the poor (IFPRI, 2002). Traditional kinship networks and Revolving Savings and Credit Associations (ROSCAs) are group based traditional microfinance approaches that the local people are recognised with which can be translated into the formal group lending (Humphreys, 1991). Group lending and joint liability can be used for collateral substitutes which can offer hope for the poor clients to access credit towards poverty reduction. From figure 4.1, 31percent of the MFIs offer group based lending but on a smaller scale and so must be expanded for more group formation. Group lending has ensured high repayment rates at low cost in Bangladesh and other countries (Simanowitz, 2001). This can work well for Ghana too because of our traditional group system of confronting issues.

Microfinance initiatives that recognize and build upon local knowledge and tradition are more culturally compatible and hence sustainable with the local community. People feel more familiar and comfortable with concepts that borrow from their own tradition and this in turn improves MFI acceptance and outreach. Microfinance approaches rooted in local culture are also more participatory because clients are more ready to identify with it and thus participate in the financial decisions and actions shaping their lives. As a result people become more committed to the sustainability of the microfinance initiatives, assume ownership and responsibility for their development, and become more self-reliant (Simanowitz, 2001).

4.4.5 Need to Include Start-Ups

Many programmes exclude clients without an existing business, using the justification that they are working with the "economically active poor". This immediately excludes the majority of the poorest (Imp-Act, 2001). Only 8 percent of the MFIs included start-ups into their product design and is not good enough. Most people are economically active by definition otherwise they would not survive (Imp-Act, 2001). Obviously there are small numbers of dependent people in each community who cannot engage in economic activities e.g. severely physically and mentally disabled. The economically active ones without existing businesses should be considered for credit to start their own businesses from the scratch. The MFIs may have to provide monitoring and guidance to ensure success of such businesses.

4.5 CONDITIONS TO SATISFY IN ORDER TO ACCESS MICROCREDIT

Many aspects of the methodology design of a microfinance programme may act to exclude the poorest. These may include entry fees, rules that exclude people who do not have an existing business e.t.c. Other aspects of programme design may not exclude the poor, but may be biased towards the needs of the better off or may impact more negatively on the poor.

Table 4.3 Conditions Required for Microcredit

Institution	Conditions to satisfy
FASL	Collateral, guarantor, group pegging, existing business, training participation, Initial savings.
Sinapi Aba Trust	Collateral, guarantor, group pegging, existing business, training participation, registration fee, Initial savings.
BACCSOD	Collateral, guarantor, group pegging, existing business, Initial savings, registration fee.
Baduman rural bank	Collateral, guarantor, group pegging, existing business, Initial savings.
Ebenezer Co-operative Credit Union	Collateral, guarantor, group pegging, existing business, training participation, Initial savings.

4.5.1 Conditions that may Exclude the Poor from Accessing Credit

Most of the cases considered use combination of the requirements to give credit to clients. For individual lending, 100 percent of MFIs require initial savings, a percentage of which is given to clients as credit. Aside that, clients must also provide collateral such as house, land or vehicle. Also 100 percent of the MFIs included existing businesses and guarantors as part of the conditions to be satisfied by individual clients. Meanwhile in our social settings most poor are those that lack assets that can satisfy collateral requirement and mostly do not have businesses of their own. Most of them are very active people and only needed start-up capital to start their own businesses and become economically independent but are denied this opportunity due to these barriers.

Loan officers may have explicit or implicit incentives to exclude the poorest. This may be based on a perception that the poorest are problematic and will create an increased work burden. Where this is combined with an organisational culture and incentive schemes emphasising sustainability targets above the need to work effectively with the poorest, loan officers will focus on achieving greater productivity, increasing portfolio outstanding, reaching larger number of clients, and identifying clients capable of taking greater amounts of credit (Simanowitz, 2001).

It is important to keep in mind that for any financial service to have a lasting impact on poverty eradication, it must be flexible and innovative to adapt to the needs of its clients. In many cases low income people want to save, and have been saving in a variety of traditional ways, ranging from kinship networks to Revolving Savings and Credit Associations (ROSCAs), but lack appropriate saving facilities that offer a combination of security of funds, liquidity, positive real return, and convenience. MFIs can build upon these traditional savings ethic to enhance outreach and quality of services. All these methodologies are group based and therefore group based lending is being proposed as more acceptable methodology in the local setting where the poor clients live.

Even though 100 percent of the MFIs studied employ group based methodology, the group constitution is inappropriate and forms only small proportion of the microfinance approaches. In most cases the poor and the non-poor are put into the same groups and as a result the better-off in the group exclude the poor from the group. Negative perception about the poor (i.e. useless, lazy, unlikely to be able to repay a loan) resulting in the fact that other members do not want them in their group. This is particularly apparent where a group guarantee system is being operated, and group members are encouraged to select out any person who may be a bad credit risk. There is therefore a challenge to MFIs to create a culture which both promotes the participation of the poorest, and provides support to ensure that the vulnerability of the poorest does not lead to their experiencing problems and leaving the programme.

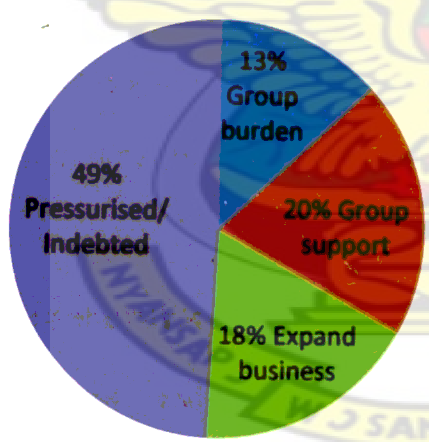
Table 4.4 Impact of Product Design on Client

Product design/condition	Impact	Reason	Frequency	Client comment
Group lending	Assist in paying loan	illiquidity	26	Commitment fee should be abolished/only trustworthy clients should be allowed in groups/regular client monitoring/loan size should be flexible
	More burden/delay in accessing another round of credit	Defaulters run away or refuse to pay/confusion over size of loan	17	
Individual lending	Expansion of business	Money enough	23	Regular client monitoring/difficulty getting guarantor/collateral requirement too high/extension of repayment period/undue delay in loan processing/
	Pressurize/borrow from other banks/heavily indebted	Inappropriate loan terms/high interest charges	64	

From figure 4.1 the MFIs prefer individual lending to group base lending (i.e. 47% loan portfolio for personal lending and 13% for group base lending). Personal lending requires collateral and guarantor which most of the clients may not be able to provide. They are poor and therefore lack assets that can satisfy collateral requirement. They have difficulty getting guarantors due to the high risk they bear. These barriers prevent the poor client from accessing credit. MFIs focus more on personal lending because they want to achieve greater productivity by identifying clients capable of taking greater amounts of credit which are certainly not the poor they claimed that they serve.

Group base lending with group guarantee present an opportunity for the poorest clients who may not be able to provide guarantors and collateral. In order for the MFIs to rope in more of the poor clients, they need to expand and focus more on group base lending as substitute for collateral and guarantor requirement if they are to achieve the ultimate goal of poverty reduction through microfinance.

Figure 4.3 Impact of Lending Approches on Clients



4.5.2 Impact of Lending Approaches on the Clients

13 percent of the clients interviewed who belong to one group or the other complained of problems which they encountered in their groups. For example some members take the credit but simply refuse to repay. Some also default and then run away. As a result, their

obligations become burden for other members of the group who bear the responsibility to settle such debt. But as members begin to know one another well, they will be able to screen those that are not trust worthy. Most at times there is misunderstanding over size of loan to take for the group. Mostly all members of a group take the same size of credit. When this arises, powerful members of the group influence size of the credit to take since they are those that are listened to. This problem could be solved by designing products for the poorest class of clients. These people usually require smaller size credit.

At times repayment time may be due but some members are illiquid. Due to trust among the group members, the group pay on behalf of others who are insolvent to be reimbursed later. This gives opportunity to access another credit on time. 20 percent of clients interviewed benefited from this group support as shown in the figure 4.3. These are some of the characteristics of our traditional system where there is this culture of working in groups and supporting one another when the need arises. MFIs can exploit this and focus on group lending to improve outreach to the poor.

As indicated earlier, all the MFIs under study focus more on personal lending approach than group lending. Personal lending requires collateral with at least 100 percent margin as well as a guarantor. Some of the MFIs require daily settlement and so their employees visit clients on daily basis to receive payment. 49 percent of the clients interviewed feel pressurized and indebted by this approach. This measure can only make clients become over dependent on these institutions for their working capital as indicated earlier. There is no room to reinvest gains in order to make enough profit to become self reliant. On days that a client is illiquid but has to pay, he/she may have to borrow from elsewhere to meet this obligation.

Some clients feel repayment period will be more appropriate if extended to monthly instalments. At times the size of credit is so small that it could not meet the project that it is intended for and so client may have to look for the rest elsewhere. According to some clients, the float is so long that the time for the use of the credit elapse. All these put the client in a precarious position such that they easily default since the money may be misapplied.

4.6 ISSUES WITH ORGANIZATIONAL SUSTAINABILITY

A key debate in microfinance centres on whether there is a trade-off between reaching the poorest and achieving financial self-sufficiency. If MFIs are to have a sustainable impact on poverty eradication, they must be efficient, financially viable institutions that can develop the financial leverage to expand outreach at a sustainable level. Adequate attention must be given to business practices to make MFIs financially sustainable in a reasonable timeframe. This section highlights some of the key principles of operational efficiency underscored in this study.

Table 4.5 Issues of Organizational Sustainability

Factors influencing organizational sustainability	Frequency
Decentralised service system	2
Target of women	2
Voluntary staff	1
Training programmes	5
Higher than market rate charges	5
Savings mobilization	5

4.6.1 Lean and Decentralized Operations

Lean, simple infrastructures utilizing basic design of microfinance products facilitates administrative procedures and increases operational efficiency. Simple and clear savings and loans criteria, preferably based on traditional mechanisms such as 'susu' savings and group base lending, are also easily understandable by local people. When possible, computerization instead of manual administration of accounts helps to reduce administrative costs (Humphreys, 1991). Only two of the MFIs from table 4.6 have decentralized operation. All MFIs need to have decentralised operations for the simple reasons that, it reduces costs associated with travel for collection and disbursement of funds, risks associated with transferring funds, and inefficiency associated with delays in communication.

4.6.2 Target of Women

From the table 4.6, only two of the MFIs target women in their operations. According to the manager of BACCSOD they target women because they form the vulnerable group in society and therefore need help. On the other hand the manager of Ebenezer co-operative credit union claims women are a better credit-risk than men. Furthermore, they are more committed to using their loans for the benefit of their household rather than self-gratifying consumption (Humphreys, 1991).

4.6.3 Utilization of Voluntary Staff

Where possible the MFIs must encourage voluntary staff especially in disadvantaged and rural areas because it can be an effective strategy for reducing operational costs. So far only Ebenezer co-operative credit union takes advantage of voluntary staff in its operations. According to the manager Mr. Appiah Agyarko training voluntary staffs can promote the transfer of otherwise costly administrative responsibilities to the voluntary staffs. This is possible in the group lending system where the group leaders volunteer to disburse credit and mobilise receivables on behalf of the MFIs. This is not only cost effective, but it also reinforces commitment to and sustainability of microfinance initiatives, empowering people to be more self-reliant and take initiative in their development. Furthermore, voluntary staffs are typically intimately familiar with the area serviced, offering valuable knowledge and commitment (Underwood, 1990).

4.6.4 Interest Charges

The administration of many small loans, including processing and tracking services, is a costly operation. Consequently, MFIs need to charge interest rates that cover operational cost to make them independent and sustainable (Simanowitz, 2001). As indicated in the table 4.6 above all the MFIs studied charge much higher rates than what the commercial banks charge. On average, commercial banks charge 30% per anum whiles the MFIs charge between 35% to 45% per anum. According to the manager of BACCSOD, they charge higher rates than the commercial banks because they also borrow from commercial banks at the going rate after which they put a margin of between 10 to 15% before lending to their clients. But charging excessive interest rates on loans can only overburden the clients as a result increasing their default risk. If MFIs can mobilize enough savings and be efficient in their operations (using lean staff, simple infrastructure, reduce waste, utilize voluntary staff, decentralize operations and e.t.c), they can charge lower rates yet can continue to be very profitable venture.

4.6.5 Savings Mobilization

Savings instruments contribute to capital mobilizations and store of value. This is essential for MFIs to become self-sufficient and also be able to attain wider market coverage. Also when funds are internally generated rather than borrowed from or granted by external sources, MFI members become more invested and participatory in the prudential administration of savings towards credit and other MFI services (Humphreys, 1991). All the MFIs studied have savings programmes but are rather used as a form of collateral or requirement to access credit. This can become a barrier to the poorest to access credit. There is a role for more accessible and private savings that are not linked to borrowing and that can be used to deal with anticipated and unanticipated risks and day-to-day economic stresses. Savings services also strengthen membership commitment to microfinance initiatives, and build a sense of discipline, self-esteem, and wellbeing (Imp-Act, 2001).

4.6.6 Training Programmes

Microfinance training is an investment capable of reducing recurring costs and improving operational efficiency, sustainability, and outreach. As indicated in table 4.4 all the MFIs studied have some training programme for their staff. Well-trained staff cultivates a sense of ownership and investment in the MFI mission that transfers to the client base, creating client loyalty (Humphreys, 1991). But providing training for staff alone is not enough in ensuring organizational sustainability. Providing basic financial and business training in savings and credit utilization, basic management, bookkeeping, and marketing for clients ensure that clients effectively invest microfinance funds into productive income-generating initiatives thereby improving credit risk of clients.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATION AND CONCLUSION

5.0 INTRODUCTION

Chapter five present summary of findings from chapter four. The summary is organised into sub-headings followed by recommendations and conclusion towards a model of microfinance aimed at impacting effectively on the livelihoods of the poor.

5.1 SUMMARY OF FINDINGS

5.1.1 Financial Programmes and Clients of the MFIs

All the selected five MFIs offer commercial products in addition to microcredit, small savings and advisory services. Only one offers micro-insurance. The clients of these MFIs include both the non-poor and the poor. According to the managers of these MFIs, commercial loans and savings are necessary to sustain the institution and as a result focus is being shifted to achieving greater productivity by identifying clients capable of taking greater amount of credit and thereby relegating the microcredit and small savings to the background.

The study disclosed that, the poor needs more than microcredit due to high risk that they bear. They therefore need other services such as savings, business advisory services and micro-insurance to mitigate such risk. Saving services are particularly important for the clients to help them better manage their resources over time and to enable them to plan and finance their investments. It is also needed by the MFIs themselves to store value towards organizational sustainability but saving is being used as collateral for accessing credit, a requirement that become a barrier for poorer clients to accessing credit. Micro – insurance unfortunately is being offered only by one of the selected MFIs although is a product that can lessen the blow when, for instance, a client falls ill, crops fail, or prices for their products fall. On the other hand all the selected MFIs offer monitoring and advisory services because they help to review progress regularly made by client and if not going according to plan the clients are helped to come on track. Monitoring and advisory services also improve the image of MFIs in the eyes of the clients.

5.1.2 Issues Considered when Thinking about Designing Microfinance Products

The selected MFIs consider market research and impact assessment for their micro-financial products and services. Four of them considered market research as well as impact assessment. Market research enables the MFI to understand the needs of clients in order to be able to develop products, services and delivery mechanisms that meet their needs. Impact assessment on the other hand is as important as market research to provide valuable feedback on the effect of different microfinance products and services that are provided by the MFIs. It helps MFIs to gain better sense of direction they need to take and how they should collaborate to meet the needs of the poor through design of better products and services.

5.1.3 Factors Considered for Designing Microfinance Programmes

The following is a list of factors that the selected MFIs have adopted in order to focus their work on the needs of the poor: 8 percent included start-ups. This gives opportunity to the poor who can engage in economic activity but are without existing businesses. 8 percent also targeted poorest. It may be difficult to include both the poor and better-off within the same programme else the poor become marginalised and hence excluded. 15 percent adopted flexible loan term. Inflexible loan terms only put the poor at a disadvantage. 31percent of the cases included group base programmes which are good substitutes for collateral requirement and therefore offer hopes for the poor.

5.1.4 Conditions Required for Micro-Credit

All the selected MFIs require collateral or group membership, existing business and a guarantor as conditions to access micro-credit. Four of them require initial savings, a percentage of which is offered as credit. Three require registration fees, orientation before accessing credit. Collateral, guarantor, registration fee, existing business and initial savings are conditions that act to exclude the poor under the personal lending programmes. Group lending can be used to replace these conditions and thereby improving outreach. Meanwhile 40percent of loan portfolio is personal lending and only 13percent for group lending.

5.1.5 Impact of Lending Approaches on Client

Few of the clients (i.e.13 percent) have problem with the group lending approach due to improper group constitution and presence of some unreliable group members. A good number of the clients (i.e. 20 percent) have benefited from group support in times of illiquidity or difficulty. 49 percent of the clients have problem with personal lending. They are either overwhelmed by the conditions attached to the personal lending or are pressurized and highly indebted due to improper loan terms. 18 percent of the clients successfully expanded or started new businesses by help of microfinance.

5.1.6 Issues with Organizational Sustainability

Microfinance institutions need to attain sustainability in order to ensure an enduring impact on poverty. The following measures were analysed towards organizational sustainability. Two of the selected MFIs have lean and decentralised service system. Lean and simple infrastructures increases operational efficiency. Decentralise service reduces travel cost, risks associated with transferring funds, and inefficiency associated with delays in communication. Two of them target women. Women are better credit-risk than men. Only one utilizes voluntary staff. This is not only effective strategy that reduces operational cost, but it also reinforces commitment to and sustainability of microfinance initiatives. All the selected MFIs organise training programmes. Training improves operational efficiency of staff and also enhances credit risk of clients. All the selected MFIs charge interest rates higher than what commercial banks charge (i.e.35percent-45percent per anum). This overburdens clients with too much interest payment thereby increasing risk of default. All of the selected MFIs also mobilize savings. Savings mobilization contributes to capital mobilization and prudence in administration of funds essential for self sufficiency. Savings services also strengthen membership commitment to microfinance initiatives, and build a sense of discipline, self-esteem, and wellbeing. But private savings is being used as collateral condition to access credit a situation that create barrier to accessing micro-credit.

5.2 RECOMMENDATIONS

5.2.1 Government must Create Stable Macro-Environment and Protect Interests

Government is required to create a stable macro-environment that keeps inflation and interest rates at reasonable levels to raise profitability of interventions. Government regulations and policies are needed to protect interest of depositors as well as MFIs and remove unnecessary red tapes. These will attract more investment into the micro-financial sector which engenders competition. Competition is expected to stimulate innovation, engender efficiency and cause prices to be lowered. Clients ultimately benefit from price reduction, more choice and better products.

5.2.2 Government must Streamline Operations of MFIs

The government must set policies that streamline the operations of the MFIs towards focusing on poverty reduction objectives other words MFIs need to change their memorandum of association as non-banking financial institutions.

5.2.3 MFIs should be Innovative

A micro-finance approach that succeeds in one context may not bring positive results in another as there is no blueprint to success. MFIs must therefore be innovative. Innovation in fact will have to consist largely of adapting organizational set-up, structure, and conduct to local settings. Microfinance initiatives that recognize and build upon local knowledge and tradition are more culturally compatible and hence sustainable with the local community. People feel more familiar and comfortable with concepts that borrow from their own tradition; this, in turn, improves MFI acceptance and outreach. Certainly, traditional methods need to adapt to the modern context, but while they can be rendered more efficient and benefit from modern innovation, they should not be replaced.

5.2.4 MFIs must Adopt Collateral Substitutes

Due to relative isolation, small size, and common resources of Ghanaian village communities engenders a mentality and approach to problems that are seen as mutual rather than individual. Traditional and informal Ghanaian savings and loan schemes are all group base methodologies. MFIs should adopt group base lending and group guarantees as substitutes for collateral requirement. Group base methodologies can be effective for educating and training microfinance participants, enhancing networking and information dissemination.

5.2.5 MFIs must Adopt a "Target – Group" Approach to Focus on the Poor

Where we have a group system composed of the poor and less poor, the poor become vulnerable and are not heard. Decisions taken as to credit terms do not favour them and are excluded due to the perception that they are useless, lazy, and are unlikely to be able to repay a loan. MFIs need to be conscious of these issues and design programmes that make sense in their contexts.

5.2.6 MFIs must Provide Services that Complement Micro-Credit

In addition to credit, savings, training and advisory services provided by most MFIs, they must also provide micro-insurance to protect the poor from uncertainty. Even though the poor may argue that, "they do not have much income to buy bread let alone set some aside for insurance", they are those hardest hit when misfortune happen, and so must be helped to take up insurance-cover. Savings services not withstanding must not be used as a collateral condition to access credit else it becomes a barrier to the poor.

5.2.7 Loan Repayment must be Based on Local Production Cycles

A farmer may be illiquid if not in the harvest period. Market woman may be illiquid if not market day during which she makes brisk business. If loan repayment terms are structured such that it falls on periods when the clients are illiquid, they may be forced to borrow from elsewhere even from money lenders at outrageous interest to pay to avoid embarrassment. As a result the poor may become overburden with debt spirals. Repayment terms must be structured such that they fall within say harvest period or on market days when the clients are likely to be liquid enough to indemnify their obligation. A loan term that is too long leads to increasing chance that the client will have to divert funds away from their business for other uses. If the loan term is too short, it may encourage dependency and does not allow for growth of the business.

5.2.8 MFIs must Offer Appropriate Loan Size and on Time

The loan sizes offered by the MFIs should be linked to the client's ability to repay the loan but not a flat loan size for everyone within a group as is the case. For better off clients with an existing secure income source, this is not a big issue. For the poorest it is important that the loan size only grows in relation to the strength of their livelihood and their income. If the loan size is too big, the excess may be used in unproductive ventures. If it is too small, it may not meet the demand for the loan. If the loan is not given on time, the time for its usage may elapse and the money may be wasted. All these scenarios rather increase the client's risk of default.

5.2.9 Poverty Reduction and Institutional Sustainability must be Seen as Mutually Reinforcing

Microfinance institutions should endeavour to attain sustainability in order to ensure an enduring impact on poverty. To ensure operational efficiency, MFIs must have lean staff and simple infrastructure. MFIs must decentralise their services into the hinterland to reduce travel cost, risk associated with transferring funds and inefficiency associated with communication delays. They must give women a priority since women are better credit-risk than men. MFIs can consider using voluntary staff, a strategy that reduces operational cost and reinforces commitment to sustainability to microfinance initiatives. There must be plan for training programmes for staff and clients as well. This will improve operational efficiency of staff and enhance credit risk of clients. MFIs must mobilize savings as means of capital mobilization. Saving services do not only contribute to prudence in administration of funds essential for self sufficiency but also strengthen membership commitment of microfinance initiatives, and build a sense of discipline, self-esteem and wellbeing.

When institutions are perceived to be sustainable they increase service users' confidence in them and thereby attract savings and compel loan repayment. This can increase outreach and also reduction in poverty. As already explained, reduction in poverty is likely to increase repayment rates and make microfinance institutions more viable.

5.2.10 MFIs must Promote Networking and Cooperation

National and international actors should reinforce cooperation and coordination for exchange of knowledge and experience. Cooperation among various microfinance actors can bring about complimentary rather than competing policies.

5.3 CONCLUSION

The study revealed that MFIs offer mix of products and cover mix of clients. The Non-poor clients and commercial products are preferred options for the MFIs. As a result, focus is increasingly being shifted from the poverty reduction objective of microfinance to institutional sustainability thereby relegating the poor clients to the background gradually.

Given the trade-off and to address the shift in focus, the project developed a model which combined traditional and modern approaches of microfinance to achieve the two objectives of sustainability and poverty reduction. The study however upheld poverty reduction as ultimate objective of microfinance. The institutional sustainability is deemed as necessary to ensure that the poverty reduction objective of microfinance is achieved. According to the study, traditional methods need to adapt to the modern context, but traditional methods that prove to be more efficient and present more benefits than the modern methods should suffice.

The study also brought to light the need for microfinance practitioners to look beyond access and ensure services are adapted to the economic and social status of service users to make microfinance interventions more appropriate to the poor in Ghana.

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KNUST

APPENDICES

Appendix 1. Questionnaire for MFIs

Are microfinance institutions loosing focus?

An examination of selected microfinance institutions in Techiman municipality

Programme: MBA Finance

KNUST School of Business - Kumasi

QUESTIONNAIRE FOR MFIs

This survey is being carried out purely for academic purposes. Please answer the questions freely. **All the information you provide will be treated in the strictest confidence.**

Name of MFI...

MFI type ....

Name and Position of Respondent...

In each of the following questions below, tick the box where appropriate.

Q1. What microfinance products and services do you offer to your clients?

List:...

....

Q2. Which of the following is/are considered in developing financial products/services for your clients.

1. Market research ☐ and why? ....
   ....
2. Impact assessment ☐ and why? ....
   ....
3. Others, specify...
   ....

Q3. What requirements or procedures does a prospective client have to go through before accessing your micro-credit services? List:...

....

....

....

Q4. Place of service provision.

1. From central office ☐ 2. Community based ☐ 3. House to house ☐
2. Others, specify……………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Q5. Which of the following factors influence your financial product design?

1. Target women ☐ 2. Target poorest ☐ 3. Group base lending ☐

4. Flexible loan term ☐ 5. Flexible loan size ☐ 6. Utilize voluntary staff ☐

Q6. What measures are put in place to reduce loan default rate?

List:……………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Q7. Any training programme for clients?

1. Yes ☐ 2. No ☐

Q7a. If yes in what subject areas……………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Q8. Do the poor clients you serve participate in any policy decisions that affect them?

1. Yes ☐ 2. No ☐

Q8a. If yes in what areas……………………………………………………………

Q8b. If No why………………………………………………………………………

Q9. From where is your staff recruited?

1. from local community ☐ 2. from other places ☐ 3. mixture ☐

Q9a. If from local community why?……………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Q9b. If from other places why?………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Q9c. If from local and other places why?..

....

....

Q10. In what ways do you motivate your staff?

List:...

....

....

Q11. Do you have staff in-service training programmes? Yes ☐ No ☐

Q11a. If yes in what subject areas...

....

....

Q12. List the factors that you consider before fixing interest rates on loans for clients?

List:...

....

....

Q12. How much is your interest charged on loans? 1. 25% - 35% ☐ 2. 35% - 45% ☐

3. 45% - 55% ☐

Q13. Indicate the percentages of your loan portfolios 1. Commercial loans.........%

2. Individual loans.........% 3. Group loans ....%

THANK YOU!

Appendix 2. Questionnaire for MFIs clients

Are microfinance institutions loosing focus?
An examination of selected microfinance institutions in Techiman Municipality

Programme: MBA Finance
KNUST School of Business – Kumasi

Questionnaire to assess impact of microfinance on economic condition of clients

This survey is being carried out purely for academic purposes. Please answer the questions freely.
All the information you provide will be treated in the strictest confidence.

Name of Respondent..

Place of abode of Respondent...

Occupation of Respondent...

Sex of Respondent; Male/Female...

Highest education level of Respondent; 1. Nil ☐ 2. Primary ☐ 3. Elementary/JSS ☐
4. Secondary/Vocational/Technical ☐ 5. Higher institution ☐

Q1. How long have you been a member of the microfinance scheme? ....years

Q2. What was required of you before joining the scheme?

1. Savings ☐ 2. Group membership ☐ 3. Registration fee ☐

Others, specify..

....

Q3 Apart from this institution, do you receive credit from any other institution?

1. Yes ☐ 2. No ☐

Q3a. If yes why ....

....

Q3b. If no why ....

....

Q4. Do you feel "under pressure" in loan repayment? 1. Yes ☐ 2. No ☐

Q4a. If yes why the pressure? ....

....

Q5. Have you ever defaulted in loan repayment? 1. Yes ☐ 2. No. ☐

Q5a If yes, what cause it?..

....

Q6.What do you think can be done to help you in loan repayment without much pressure?

a. By yourself...

....

b. By the institution..

....

Q7. Do you belong to a loan group? 1. Yes ☐ 2. No ☐

Q7a.State the name of the group...

Q7b. If yes, in what ways has the group been helpful/beneficial to you?............................

....

Q7c. What are some of the problems encountered in the group?.......................................

....

....

Q8. In what ways does the loan you receive benefit you (i.e startup capital, expansion of existing business or development of a new business) ....

....

Q9. In what ways do you feel the loan you receive make your situation worse-off (i.e. sold asset to repay loan/collapse of existing business/ heavily indebted)?.....................

....

....

Q9a. Suggest ways that you think microfinance can help to meet the needs for which you take credit? ....

....

Q10. What recommendation do you have for management with regard to giving credit to clients ....

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Thank you!