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COLLEGE OF ARTS AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

AN ASSESSMENT OF CREDIT DELIVERY IN MICROFINANCE: A CASE STUDY OF FIRST ALLIED SAVINGS AND LOANS LIMITED

BY

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DECLARATION

I, Owusu Wih Boafo, do hereby declare that this thesis consists entirely of my own work, under supervision and that no part of it has been presented for another degree elsewhere.

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DEDICATION

Dedicated to the Almighty God by whose grace I have been able to accomplish this task, my wife Rebecca Gyimah and to all loved ones.

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ABSTRACT

First Allied Savings and Loans Ltd. which was established in 1996 as a Non-Bank Financial Institution has attracted a growing attention in Ghana. FASL has nine branches throughout the country. FASL commenced operations with the mission of offering convenient access to efficient, innovative and responsive financial services to the micro and small scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders.

FASL offer their clients a variety of products and services. FASL has four major lending products: Commercial (Individual) loan, Susu, Allied Mpontu and Travel Credit.

The study mainly sought to assess the responsiveness of customers to the products of FASL and the extent to which the Microfinance programme has also sustained the institution. A random sampling technique was adopted. Two hundred and fifty customers and staff of FASL were sampled to administer the questionnaire. All the two hundred and fifty people to whom the questionnaires were administered responded and thereby given a 100% response rate

The study revealed that, the microfinance scheme at FASL has helped low-income men and women to overcome the formidable barrier in gaining access to mainstream financial services and has also sustained the institution.

The study, therefore recommended the need to set up an authorized body that would be charged with the regulation, supervision and the development of the microfinance sector.

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List of Abbreviations.

ERP-	Economic Recovery Programme
IMF-	International Monetary Fund
SAP -	Structural Adjustment Programme
NBFI-	Non-Bank Financial Institution
BOG-	Bank of Ghana
FASL-	First Allied Savings & Loans Limited
MFI-	Micro Finance Institution
MSB-	Micro Enterprise & Small Business
NGO-	Non Governmental Organization
NBSSI-	National Board for Small Scale Industries
FINSAP-	Financial Structural Adjustment Programme
PNDC-	Provisional National Defence Council
GNP-	Gross National Product
SOCODEVI-	Societe de Coperation pours le development international
CGAP-	Consultative Group to Assist the Poor
MSC-	Micro Credit Summit Campaign
GHAMFIN-	Ghana Microfinance Institutions Network
USAID-	United States Agency for International Development
SOMED-	Soweto Micro enterprise Development
SAT-	Sinapi Aba Trust
PAR-	Portfolio at Risk

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Credit Delivery in Microfinance arose in the 1980s as a response to doubts and research findings about state delivery of subsidized credit to poor farmers. In the 1970s, government agencies in Asia, Europe and Latin America (Accion International) were the predominant method of providing productive credit to those with no previous access to credit facilities. (Ledgerwood, 1999)

Governments and international donors in Bangladesh, Indonesia, and Germany etc assumed that the poor required cheap credit and saw microfinance as a way of promoting agricultural production by small landholders. In addition to providing subsidized agricultural credit, donors set up credit unions inspired by the Raiffeison model developed in Germany in 1864. The focus of these cooperative financial institutions was mostly on savings mobilization in rural areas in an attempt to "teach poor farmers how to save" (Ledgerwood, 1999)

Since 1980, the field of microfinance has grown substantially. Donors actively support and encourage microfinance activities, focusing on microfinance institutions that are committed to achieving substantial outreach and financial sustainability. Today, the focus is on providing financial services only, whereas during the 1970s and much of the 1980s microfinance was characterised by an integrated package of credit and training which required subsidies. Quiet recently, Non-governmental Organisations including PRODEM / BancoSol in Bolivia, K-REP in Kenya and ADEMI / BANCO ADEMI in the Dominican Republic have begun transforming into formal financial institutions that recognise the need to apply credit delivery methodologies in microfinance, provide savings services to their clients and access marketing funding services, rather than relying on donor funds. This recognition of the need to achieve financial sustainability has led to the current "financial systems" approach. (Ledgerwood, 1999)

Microfinance is defined as the delivery of financial services such as credit, savings and insurance to clients who are without access to the services of formal sector financial intermediaries. There are two methods of credit delivery in microfinance. These two broad categories of credit delivery methodologies in microfinance are the individual lending and group lending approaches, based on how the microfinance institution delivers and guarantees its loans.
(Waterfield and Duval, 1996).

The Grameen Bank in Bangladesh was the first to pioneer group lending as a means of supplying capital to low income producers. The lending strategy was developed to target low- income borrowers who normally found themselves excluded from commercial credit markets. One of the most distinguishing characteristics of Grameen's group lending scheme was the joint liability loan contract. Since the Grameen Bank first introduced group lending, the lending technology has spread not only across Asian countries but also to parts of Africa and throughout Latin America.

In Ghana, various governments have recognised the implications of pervasive poverty for socio-economic and human resource development and have launched various programmes to address the situation. Firstly, the ten-year development plan was meant to develop the infrastructure of the country. Others that followed were the seven-year Development plan (1961-1968), the five-year development plan (1975-1980). In spite of these laudable programmes, the economy of the country continued to deteriorate partly because of political instability which made it impossible for the programmes to be carried through to it logical conclusions. One of the outcomes was that poverty deepened, especially in the late 1970s and early 1980s.

According to (Databank report, 2003), The Bank of Ghana in 1976 promulgated the rural banking idea and established it as a supplement to the commercial and development banking and as a boost to facilitate business transactions and financial services for the general development in the rural areas. The banking sector lacked control systems.

Secondly, a greater portion of the commercial banks' loan portfolio was allocated for public sector funding and therefore minimal capital was allocated for the private sector. Thirdly, because of poor remuneration, the Rural Banks were not able to attract qualified staff. In view of these constraints in the financial market, the Economic Recovery Programme (ERP) was proposed and promoted by the government and its allied bodies in 1983. This recovery programme was pursued in three phases spanning 1983 - 1993. The first phase was focused on stabilising the economy by reducing severe imbalances in government finances, restraining credit expansion and encouraging productive activities (1983-1986). The second phase which covered the period of 1987-1989 was called the Structural Adjustment Programme (SAP). The Structural Adjustment Programme was established to rehabilitate the economy by tackling structural imbalance through removal of major bottlenecks in the economy and laying the foundation for sustained growth. The third and final phase also focused on the accelerated structural and institutional reforms, and by laying of firmer foundation for growth of the private sector included Financial Structural Adjustment Programme (FINSAP).

(Databank's report, 2003), emphasize that FINSAP was implemented in two stages, FINSAP I (1989-1990) and FINSAP II (1991-1993). The broad objective of FINSAP was to enhance a sound banking system through improved regulatory and supervisory framework and to improve the mobilization and allocation of financial resources including development of money and capital markets. FINSAP I (1989-1990) saw the enactment of a new banking law (PNDC law 225) in 1989, which focused on the improvement in the banking sector for independent financial performance and to ensure liberalized financial sector from state control.

FINSAP II (1991-1993) also brought about the enactment of financial institution (non-banking) law 328. This sought to provide supervisory and regulatory framework for non-bank financial institutions (NBFIs). The NBFI sector is made up of acceptance houses, finance houses, leasing and hire-purchase companies, mortgage finance companies, ventures capital companies, credit unions, building societies and savings and loans companies. Statutorily, NBFI in Ghana is defined by the Financial Institutions (Non-

Banking) Law, 1993 PNDCL 328 in section 27 as "any non-banking financial institution which carries on the business of or part of whose business is, any of the following characteristics:

a. Taking of deposits
b. Financing of any activity by way of making loans or advances or otherwise, other than its own
c. Companies not otherwise regulated under the securities industry law PNDC 333, dealing in shares, bonds, debentures or securities issued by the Government or a company or other marketable securities.
d. Leasing, letting or delivering of goods to hire-purchase agreement
e. Carrying on by insurance companies of any business other than insurance

Generally, the term NBFI includes all financial institutions other than banks which participate in the financial intermediation process. Examples of NBFI in Ghana are First Allied Savings and Loans Ltd, Opportunity International Savings and loans Ltd and Procredit Savings and Loans Ltd.

First Allied Savings and Loans Limited (FASL) has attracted a growing attention in Ghana. Part of the reason for this attention is the fact that FASL has managed to profitably maintain credit relations with a growing number of urban micro-entrepreneurs in a market that previously offered these individuals little or no credit since it was licensed by bank of Ghana (Under PNDCL 328) in March 27, 1996 as a Non-Bank Financial Institution (NBFI).

1.2 ORGANISATIONAL STRUCTURE OF FASL

FASL employs an effective organisational structure with clearly defined lines of authority from top management level downwards. On top of the hierarchy is the Board of Directors followed by the Managing Director, the Heads of Department, Operational Managers, Officers and Clerks

Board of Directors

Fasl is governed by an eight member Board of Directors composed of five (5) Non-Executive Directors and three (3) Executive Directors. The Board of Directors are responsible for the formulation of the institution's overall strategy and the monitoring of operational activities of the management team. The Board of Directors are made up of professionals and renowned businessmen who have accomplished significantly in their various fields of endeavour

Management Team

The day to day management of the Institution is carried out by a team of competent management staff headed by the Managing Director. The Managing Director is assisted by the Heads of Departments, who supervise the various departments. In addition, there is an Inspection and audit department responsible for reviewing the effectiveness and adequacy of the Institution's operations, and also a Company's Secretary for secretarial and administrative matters. The Heads of Department who together with the Managing Director form the management team are the Heads; Administration & Human Resource, Operations, Finance and Accouts, Credits, Risk and Monitoring,

1.3. OPERATIONAL ACTIVITIES OF FASL

First Allied Savings & Loans commenced official business on 25 September 1996 after it had received a certificate to commence business on 5 June 1996. The institution has six departments. Each of the six (6) departments is either headed by a departmental head. The departments are the Branch Operations, the Inspection, the Administration and Human Resource, Accounts and Finance, Credits, Risk and Monitoring.

First Allied Savings & Loans nation wide branch network has increased to nine (9) branches since the beginning of this year. Four (4) Branches can now be found at Adum, Asafo, Roman Hill, Suame, all in Kumasi. In Accra, FASL has branches at Adabraka and Tudu. Branches of FASL can now also be found in Techiman, Obuasi and Nkawkaw.

1.3.1. PRODUCTS OF FASL

The institution's products have been categorized into deposit-taking and advance granting. The main deposit-taking products are Current accounts, Savings accounts, Fixed Deposit accounts and Susu accounts.

Deposit-taking Products:

Current account: – The current account allows individuals and micro/small businesses to deposit or transfer money to another account with ease. It also offers customers instant access to their money. The minimum amount required to open an account is Ten (10) Ghana cedis

Savings account: – This targets individuals and businesses that want to put aside some funds for precautionary motives or unforeseen contingencies. Interest is paid quarterly on clients' savings accounts. The minimum amount required to open an account is Five (5) Ghana cedis. Clients can withdraw from their savings accounts once every seven (7) days. Penalty is charged on a customer who makes more than one withdrawal within seven (7) days.

Fixed Deposit Account: -This product targets individuals and businesses that want to save for specific period of time. This is a fixed term depository offered for one (1) month, three (3) months, six (6) months and twelve (12) months or more. A customer can operate this product with a minimum of ten (10) Ghana cedis.

Susu savings:- The susu system is an informal grassroots savings movement that has been widely practiced in Ghana for over fifty (50) years. The susu collector is one man-operator who visits his savings clients in their shops, workplaces, or homes on daily basis to collect a predetermined amount of money agreed with the saver. The collection cycle has traditionally been one month, after which period the collector returns the saver's deposit to him/her, less a commission. FASL introduced its Susu savings scheme in 1997. The FASL Susu scheme, which is essentially an adaptation of the traditional Susu, is offered in three varieties namely Ordinary Susu, Golden Susu, Golden-plus Susu and Premium Golden Susu

Ordinary Susu: - Participants in the ordinary susu scheme contribute a self-determined amount ranging between one Ghana cedi sixty pesewas and five Ghana cedis. At the end of the cycle, 25% of the participant's contribution is retained by FASL and invested in a savings account on their behalf. After final payment of the susu loan, the participant has the option to continue the scheme for another cycle. The susu loan is payable over a period of six months to twelve months.

Golden-Plus Susu: - This is a product for any participant in the Golden susu scheme who has completed two consecutive cycles, and further undertakes to increase contribution to five (5) Ghana cedis or more. At the end of the third cycle the participant shall enjoy all the benefits under the Golden Susu scheme and shall additionally be entitled to a commercial loan to support her business.

Advance Granting Products

Allied Mpontu Loan Scheme: This is a typical microfinance programme being implemented at FASL. The terms and conditions of this programme are:

i. Eligibility

The Allied Mpontu product targets micro and small operators in the various market locations nationwide. Clients involved in agriculture and start-up businesses are not eligible. This product is offered to clients who shall meet the following requirements:

i. Have opened a Susu Savings Account with FASL;
ii. Have a business location which has been visited to the satisfaction of FASL Customer Intermediary or Loan Officer;
iii. Be part of a group of five (5) members with a designated leader;
iv. Have contributed the savings amount required to access a loan.

Within this scheme, group members shall be automatically selected on a voluntary basis subject to similar savings capacity and credit needs. Also, members within the same group shall have business locations not far apart. Group members are also supposed to accept taking joint and several responsibilities for reimbursing the loan.

ii. Savings requirements

Group members within the Allied Mpontu scheme are supposed to mobilize 25% of the requested individual loan amounts in their respective Susu Savings Accounts prior to loan disbursement. These savings are to constitute a Guarantee Fund to serve as prime security for the loan and shall be blocked until full repayment of the loan. Savings are to be made through regular weekly contributions over a minimum period of eight (8) weeks. According to the scheme, there should not be compulsory progressive savings requirement after loan disbursement. However, clients are sensitized to the fact that progressive savings would enable them to access larger amounts in the future.

iii. Loan Approval Scheme

According to the Allied Mpontu scheme, all loan applications submitted by eligible groups who have fulfilled savings obligations and other requirements should be approved automatically and processed within five (5) working days of their receipt. The individual loan amount should be equal to four (4) times the member's guarantee fund and the minimum individual loan amount is fifty Ghana cedis (GH¢50.00). The maximum individual loan amount for a first loan should be one thousand Ghana cedis (GH¢1000.00). According to the terms of this microfinance scheme, loan amounts should be increased only for those groups who have repaid their previous loan fully and on time. Groups who have been late in loan repayment are not graduated quickly and may even go through a "resting" period before accessing a new facility. A client rating system has been established to this purpose. The loan term ranges from 6months to 12months.

Individual Loans: This is also another microfinance programme being implemented at FASL. Individuals, enterprises and companies that have had a current account relationship with FASL for a minimum period of two months can apply for a loan for working capital purposes or for the purchase of fixed assets. Also, Individuals that have had a susu account relationship with FASL for a minimum period of three months can apply for a loan for working capital purposes. Loans are granted for terms of a maximum period of twelve (12) months. The terms and conditions of the individual loans are applied the same way as the allied mpontu scheme.

Consumer Credit Loans: - This product is done or promoted in collaboration with Newstyle Stores. FASL finances the purchase of consumer durables from Kumasi Home Stores after the customer has paid an initial deposit of 35% of the cost of the item.

Travel Credit: - This product is short-term and is meant for clients who need to purchase tickets to travel abroad. They are expected to pay back the loan over a 3-month period. Clients who are to patronise travel credit can either be FASL customers or not.

1.4. PROBLEM STATEMENT.

Microfinance institutions (MFIs) offer their clients a variety of products and services. The nature of the target clients (i.e. Poor women and men without tangible assets, who often live in remote areas and mostly illiterates) do not permit MFIs to operate like most formal financial institutions because of the high rate of delinquent loans and default payments. Formal financial institutions do not regard the tiny informal businesses run by the poor as attractive investments because of the high cost of delinquent management and therefore the credit demands of low and moderate income Ghanaian households are not met by these formal financial institutions.

The problem is that, are these low and moderate income Ghanaian households able to overcome these formidable barriers in gaining access to mainstream financial services and also sustain the microfinance institutions like FASL

1.5. OBJECTIVES OF THE STUDY

The objective of this study is classified into main and specific objectives. Whilst the main looks at the overall objectives, the specifics look at the much numerated issues of which understanding is being sought.

The main objective of the study is to assess the responsiveness of customers to the products of First Allied Savings and Loans Ltd and further to examine the extent to which the credit delivery has also sustained the institution.

The specific objectives are:

i. To review the sustainability of the microfinance programme in FASL from December 2002 to December 2007.
ii. To assess the suitability of business location of FASL clients.
iii. To assess whether the loan duration (repayment terms) and loan amount taken by clients are beneficial to FASL and its clients.
iv. To assess whether diversion of loans taken by clients affect the credit delivery.

v. To assess the available media of marketing the products of FASL.

vi. To assess the experience of FASL staff in relation to credit delivery.

1.6, RESEARCH QUESTIONS

1. Is the micro credit delivery sustaining FASL?
2. Have the clients' business location helped with micro credit delivery?
3. How have the loan repayment terms and loan amounts impacted on client's welfare?
4. Are the current arrangement or available means of marketing FASL products effective?
5. How has the experience of FASL staff impacted on the micro credit delivery?

1.7. JUSTIFICATION OF THE STUDY

Deciding which credit delivery methodology in microfinance depends on the MFIs objectives, the demands of the target market, the existence of other service providers and an accurate calculation of the costs and feasibility of delivering the services (ledgerwood 1999). Therefore, this study will serve as a guide to strategic management of credit delivery.

The study will also help small and micro enterprises to identify an efficient and convenient way to have access to responsive financial services for the mutual benefit of all stakeholders. According to the Women's World Banking Report (1995), it has been estimated that, there are five hundred million economically active poor people in the world operating micro enterprises and small business who do not have access to adequate financial services.

It will also serve as a guide to policy makers and the general public at large to determine the impact of microfinance on the development of the economy.

Finally, the study will help FASL to identify its portfolio diversification and asset quality for each credit delivery method. Portfolio diversification refers to financial institutions' need to ensure that they have not concentrated their portfolio in one geographic sector or one market segment. Asset quality represents the risk to earnings derived from loans made by the organisation. In other words, it measures the degree of risk that some of the loan portfolio will not be paid (ledgerwood, 1999).

1.8. LIMITATIONS OF THE RESEARCH

A lot of constraints were encountered in this project work. First of all, Ghanaian companies are less transparent with information. The success of getting the needed information was highly dependent on the willingness of customers and bank officials. At certain stages, some of the customers were reluctant to disclose vital information concerning their businesses. However, due to the level of confidence they had developed in me, most of them revealed their vital information without fear that it will be disclosed to their competitors. On the question of sustainability, the income statements of the company were not made available to me, on the account of this therefore, loans recovery rates was used as a proxy for profitability. Time constraint was another factor, as a lot of time was used in search for the gathered information as they were completely scattered.

1.9. ORGANISATION OF THE STUDY

The main body of the dissertation will be structured as follows:

Chapter one will introduce the study about the organisation (FASL) stating the problems, objectives, research questions, justification and limitations of the study; chapter two will review the literature on credit delivery methodologies in microfinance and how each credit delivery method sustains some institutions and also the extent to which each method has alleviated poverty in some countries; chapter three will focus on the methodology that will be used to achieve the stated objectives; chapter four will focus on the research findings and the results; chapter five will discuss the findings of the research and chapter six will discuss the conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section presents the background and historical trend of microfinance. It also provides a working definition of microfinance as well as Microfinance Institutions (MFIs). The section also reviews the importance of carrying out impact assessment studies, the common methods and techniques that have been used and the general outcomes of some impact studies. Finally, the literature review touched on the results of impact studies carried out in Ghana, South Africa, and Bangladesh.

2.2 What is meant by Microfinance?

According to Canadian International DevelopmentAgencies, microfinance refers to the provision of a broad range of financial services to the poor, low income households and micro enterprises that usually lack access to formal financial institutions. Since the 1980s, microfinance has evolved as an economic development tool intended to benefit the poor. It has increasingly been seen as a strategy or tool for poverty reduction. In addition to financial intermediation, many Micro Finance Institutions (MFIs) provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus the definition of microfinance often includes both financial and social intermediation (Ledgerwood, 1998).

Microfinance Institutions can assume a number of forms including community or village banks, financial cooperatives, non governmental organizations and credit unions.

2.3 Background to Microfinance

The idea of microfinance started from the 1950s with the *subsidized credit provision model* in which governments and international donor organisations subsidized credit delivery to small farmers in rural areas of many developing countries. It was assumed that the poor found great difficulty in obtaining adequate volumes of credit and were charged high rates of interest by monopolistic money lenders.

In the 1970s, government agencies Asia, Latin America and Europe were the predominant method of providing productive credit to those with no previous access to credit facilities- people who had been forced to pay usurious interest rates or were subjected to rent-seeking behaviours. Governments and international donors assumed that the poor required cheap credit and saw this as a way of promoting agricultural production by small landholders. In addition to providing subsidized agricultural credit, donors set up credit unions inspired by the Raiffeisin model developed in Germany in 1864. The focus of these co-operative financial institutions was mostly on savings mobilization in rural areas in an attempt to 'teach poor farmers how to save' (Ledgerwood, 1998). Development finance institutions such as Agricultural Development Banks were responsible for the delivery of cheap credit to poor farmers. These institutions attempted to supervise the uses to which loans were put and repayment schedules were based on the expected income flow from the investment. Returns were often overestimated. For example, calculations would be based on agricultural yields for good years (Adams and Von Pischke, 1992).

As a result loans were often not repaid. The credibility and financial viability of these subsidized credit schemes were further weakened by the use of public money to waive outstanding and overdue loans during election time (Adams and Von Pischke, 1992; Lipton, 1996; Wiggins and Rogaly, 1989). A dependence on the fluctuating whims of governments and donors, together with poor investment decisions and low repayment rates made many of these development finance institutions unable to sustain their lending programmes.

2.3.1 The Move to Market Based Solutions

Beginning in the mid 1980s, the subsidized, targeted credit model supported by many donors was the object of criticism, because most programs accumulated large loans losses and required frequent recapitalization to continue operating It became more and more evident that *market based solutions* were required. This led to a new approach that considered microfinance as an integral part of the overall financial system. Due to the criticisms in the 1970s, donors and other resource allocators switched attention from state intervention to market based solutions (thus, emphasis shifted from the rapid disbursement of subsidized loans toward the building up of local, sustainable institutions to serve the poor). At the same time, local NGOs began to look for a more long term approach than the unsustainable income generation approaches to community development. (Ledgerwood, 1998).

Policy makers were reminded that credit could also be described as debt and that the over supply of subsidized credit without realistic assessment of people's ability to repay could result in impoverishment for borrowers. At the same time the concept of *transaction cost* and the notion that full information about borrowers was to justify the high interest rates charged by money lenders. Lending money carries with it the risk of non-repayment. In order to know who is creditworthy and who is not, and so reduce risk, the lender screens potential borrowers. This involves gathering information on the circumstances of individuals, which may not be easy to obtain. Then enforcement costs are incurred to ensure repayment. Through this process, risks are reduced, though not eliminated. Where a loan is disbursed on condition that it is used for a particular purpose, supervision costs also rises. (Ledgerwood, 1998).

Using these tools of analysis, it was argued that private money lenders charged interest rates which were higher than formal bank rates because of the higher costs they faced in terms of risk, particularly when lending without physical collateral. At the same time, it was argued that money lenders were an efficient source of credit because their greater knowledge of the people to whom they were lending lowered screening costs. Moreover, potential borrowers faced high transaction costs when they sought loans from formal sector finance institutions. These costs included time, travel, and paperwork involved in obtaining credit, and was often prohibitive for poor clients, especially those most geographically isolated. On the basis of this analysis, a group of economists based at Ohio State University (USA), notably Dale Adams and JD Von Pischke, put forward the view that the provision of credit should be left almost entirely to the private sector. Bank Rakyat Indonesia, a state owned, rural bank, moved away from providing subsidized credit and took an institutional approach that operated on market principles. (Ledgerwood, 1998).

Microfinance actually started in Asia. In Bangladesh, Dr Mohammed Yunus led the way with a pilot group lending scheme for landless people. This later became the Grameen Bank, which now serves more than 2.4 million clients (94 percent women) and has become a model for many countries. The field of microfinance has grown substantially. Donors actively support and encourage microfinance activities, focusing on MFIs that are committed to achieving substantial outreach and financial sustainability. Today the focus is on providing financial services only, whereas the 1970s and much of the 1980s were characterized by an integrated package of credit and training which required subsidies. (Ledgerwood, 1998).

2.4. Microfinance at the Global Level

According to a study done by Lapeneu and Zeller (2001), Asia is the most developed continent in the world in terms of volume of MFI activities. This conclusion drawn is based on analysis of over 1500 institutions from 85 developing countries. Comparing MFIs in Asia with those in Africa and Latin America, the study found that in the 1990s Asia accounted for the majority of MFIs, retained the highest volume of savings and credit, and served more members than any other continent. This generalization covers up some wide disparities within the region. East Asia is particularly well served by MFIs. The largest number of members served and the largest distribution of loans and mobilization of savings in terms of GNP is found in Bangladesh, Indonesia, Thailand and Vietnam. In contrast, the two most populated countries in Asia, India and PRC, have very low outreach, despite a high concentration of the regions poor. Afghanistan, Myanmar and Pakistan also have low outreach due to a variety of factors. Despite these disparities within the region, overall it is said that MFIs have flourished in Asia and that compared to other regions they exhibit good outreach and high repayment rates.

Microfinance has performed favourably in Asia. A combination of key macroeconomic factors, such as steady and high economic growth, relatively low inflation, and high population density (which lowers transaction costs in rural areas) and microeconomic factors such as managed growth, deposit mobilization and cost control has contributed to the success and sustainability of a number of MFIs in the region. The size of microfinance in Asia is significant, the Asian Development Bank estimates that the microfinance industry currently serves close to 22 million poor and low income households in the region and seven of the eight MFI world giants are in Asia.

In Togo, SOCODEVI (Societe de cooperation pour le development international) supports women's savings and credit mutual and the Union which they have created. In 2001-2002, the mutuals introduced a new loan product designed for disadvantaged women. The product resulted in a marked increase in membership now in excess of 14,000 women. Technical support has been provided to the Union to produce a development plan intended to address the needs of the mutuals and to ensure organizational and financial viability.

2.5. Microfinance Institutions (MFIs)

Successful microfinance institutions in the 1980s, such as Grameen Bank in Bangladesh and BRI in Indonesia, created great expectations for scaling up of microfinance to massively reduce poverty in developing countries. Diverse forms of microfinance institutions (MFIs), NGOs, credit unions, non bank financial intermediaries, commercial banks and financial cooperatives- began developing programmes and institutions to bring microfinance to the poor. Canadian organizations were particularly involved in promoting a community finance model. In the 1990s, the enthusiasm for microfinance led to the creation of two international organizations aimed at promoting and improving the use of microfinance for development. The two organizations are CGAP (Consultative Group to Assist the Poor) and the Micro credit Summit Campaign (MSC).

(Ledgerwood, 1998).

CGAP was established in 1995 as a consortium of donor agencies that support microfinance, with a mission to improve the capacity of microfinance institutions to deliver flexible, high quality financial services to the poor on a sustainable basis. CGAP is a consortium of 29 bilateral and multilateral donor agencies who support microfinance. CGAP'S mission is to improve the capacity of microfinance institutions to deliver flexible, high-quality financial services to the very poor on a sustainable basis. CGAP serves microfinance institutions, donors and the microfinance industry through the development of technical tools and services, the delivery of training, strategic advice, technical assistance, and action research on innovations. (Ledgerwood, 1998).

In February 1997, the Microcredit Summit Campaign (MSC) gathered over 2,900 signatures, from 137 countries, to support the declaration to reach 100 million of the world's poorest families, especially the women of those families with credit and other financial and business services by the year 2005. The summit has been successful in increasing awareness and support for microfinance, bringing microfinance practitioners together for networking and training, and working to improve positive, measurable results of microfinance for the poor. (Ledgerwood, 1998).

2.6. Microfinance in Ghana

Whereas NGOs and MFIs have recently appeared in the field of microfinance, Ghana can look back on a tradition of a strong and vibrant informal sector, especially the susu system. A large number of susu collectors are operating in the informal financial sector. They provide collection and safe keeping services for the savings of mostly women market vendors. The savings are usually deposited with banks by the susu collectors. Moreover, collectors give their clients access to "loans" in the form of overdraft facilities against the total amount of savings they have contracted to deposit weekly for a set period. (Samuel A.A 2001)

In 1993, the then Government of the PNDC promulgated a Law known as the Financial Institution [Non-Banking] Law, (PNDCL 328) to regulate the activities of these susu collectors. An increasing number of susu collectors have become co-operative member associations such as the recently-established National Associations of Susu Collectors. Between 1994 and 2000, the African Regional Department of the World Bank Group conducted an Action Research Programme on Sustainable Microfinance in Africa. Under this programme, the World Bank Group has helped national institutions form networks as a way of strengthening their capacity to deliver cost effective financial services to the poor. Altogether, six networks in the following African countries have been assisted within the Action Research Programme: Kenya, Ghana, Zambia, Cameroon, Ethiopia, and Mozambique. This led to the formation of Ghana Microfinance Institutions Network (GHAMFIN). GHAMFIN was legally registered in august 1998. Its members include institutions of different sizes and legal structures such as NGOs, cooperatives, Non Bank Financial Institutions, and rural banks. The mission of GHAMFIN is to coordinate and support the activities of microfinance institutions with a view to promoting the development of an efficient and sustainable microfinance industry in Ghana. Its long term objective is to strengthen the capacity of MFIs through training; sensitize government and shareholders on microfinance issues; and encourage more MFIs to join the network. GHAMFIN regularly collaborates with government and donor organizations in Ghana, particularly in the area of policy change activities. Funding for GHAMFIN comes mainly from grants, fees for services and membership fees. GHAMFIN's major donors are the Government of Ghana, The United States Agency for International Development (USAID) IFAD and Care International. GHAMFIN has received funding under the non-bank financial institutions project to support specific activities of the network. (Samuel A.A. 2001)

2.7. Assessing Impact of Microfinance Interventions

It is argued that the very popularity of microfinance services among the people is good enough to demonstrate that they find the services of benefit. But there is a concern about understanding how the consequences of microfinance intervention can be measured and attributed. If financial service provision has had poverty reduction as a goal, it is particularly important to know whether, by how much, and for whom poverty has reduced (or increased) and the extent to which these changes have occurred as a result of the intervention (Johnson & Rogaly, 1997).

The basic organizing principle for any good evaluation or impact assessment is to ask the question: what would have been the welfare levels of communities, groups, households and individuals without the intervention? An impact evaluation assesses the extent to which a programme has caused desired changes in the intended audience. It is concerned with the net impact of an intervention on households and institutions, attributable only and exclusively to that intervention. Thus, impact evaluation consists of assessing outcomes and, thus the short or medium-term developmental change resulting from an intervention. Impact assessment started to be a concern in microfinance from the late 1980s. Assessments were of different types commissioned by different agencies with different aims. Impact assessment in microfinance has received more attention than in any other area of enterprise development. It is now generally accepted that impact assessment is a critical element in further improving micro-finance services and promoting innovations. From a donor perspective, impact assessment is necessary to make informed funding decisions in the context of increasing competition between different programs many of whom are making ambitious claims of impact. Impact assessment is also crucial to ensuring that donor guidelines for Best Practice support rather than undermine programme achievement in relation to poverty reduction, empowerment and other development aims. (Johnson & Rogaly, 1997).

Existing impact assessments have made an important contribution to understanding some of the complex interactions between microfinance interventions, livelihoods, and different dimensions of poverty reduction and empowerment. Most impact assessments to date have been funded or motivated (implicitly or explicitly) by the desire of donors or programs to 'prove' the impact of microfinance or the impact of their own programs (Mayoux, 2001).

2.7.1 Common Methods and Techniques for Impact Studies

Debates over the techniques used for impact assessment have centered on the application of quantitative or qualitative methods. Conventional approaches often give an imbalanced focus on quantitative and measurable indicators, to the neglect of social and psychological issues that tend to be qualitative in nature. Recent methodological research papers revealed that there are limitations to a purely quantitative approach as well as to a purely qualitative approach in social science research, be it impact evaluation, poverty assessment, and so forth (Howe & Eisenhart, 1989; Glewwe, 1990; Dudwick, 1995). Each approach has an appropriate time and place, but in most cases both are required to address different aspects of a problem and to answer questions that other approaches cannot answer well or cannot answer at all (Car Valho & White, 1997). One significant innovation in impact assessment studies of late is the injection of participatory approach into the broad methodology. The participatory approach is a tool for learning from experience. Its appeal lies in the fact that it is action oriented and provides the framework for the stakeholders to be intensively involved in data collection and analysis with the process facilitated by the researcher or resource person (Howe & Eisenhart, 1989). In short, the participatory approach complements conventional methods of data collection in impact assessment studies

The measurement of the impacts of microfinance programs is fraught with a number of difficulties and methodological problems. One such problem is the difficulty of estimating the counterfactual situation in order to compare with factual conditions of the target group. It is encouraging to note, however, that in recent years some progress have been made in developing methodologies that address this problem. In fact, impact assessment methodologies are being improved through the application of methods like 'with' and 'without' approach and pre project baseline studies. The methods help not only in assessing the counter factual situation but also in reducing errors associated with memory difficulties of respondents (Moser & Kalton, 1971).

Another problem is the difficulty of attributing any change that is found in the circumstances of the beneficiaries specifically to the credit intervention. Normally, microfinance interventions take place alongside a whole array of social and economic projects, all aimed at promoting development. Consequently, other events and changes occur while the intervention is taking place, and this may make it virtually impossible to separate out the specific impact of credit programs (Johnson & Rogaly, 1997).

2.8 General Outcomes of Impact Studies

Existing impact assessments indicate that microfinance services potentially have a significant contribution to make to poverty reduction including dimensions of poverty which are not conventionally seen as the aim of microfinance. Recent microfinance impact assessment studies have shown that

- Microfinance services are a key contribution to poverty reduction.
- Increasing women's access to microfinance services is desirable, not only because of experience of high female repayment rates, but also gender equality and empowerment.
- Microfinance projects impacted the businesses and lives of the beneficiaries in several positive ways, particularly in their economic circumstances and access to essential life-enhancing facilities and services.

Experience and the findings of existing impact assessments indicate that contribution to poverty reduction and women's empowerment cannot be assumed, some policies introduced to increase financial sustainability may have negative consequences for both poverty reach and gender objectives, and progress towards financial sustainability has been more problematic than anticipated in many programs. This study reviews the outcomes of impact studies in Bangladesh (Grameen), South Africa (SOMED), and Ghana (SAT). (Afrane, 1997/8).

2.8.1 The Grameen Bank

The origin of Grameen Bank can be traced back to 1976 when Professor Muhammed Yunus, Head of the Rural Programme at the University of Chittagong, (Bangladesh) launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. The Grameen

Bank Project (Grameen means "rural" or "village" in Bangla language) came into operation with the following objectives.

- Extend banking facilities to poor men and women.
- Eliminate the exploitation of the poor by money lenders.
- Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh.
- Bring the disadvantaged, mostly women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; and
- Reverse the age-old vicious cycle of low income, injection of credit, investment, more income, and more savings.

The action research demonstrated its strength in Jobra (a village adjacent to Chittagong University) and some of the neighbouring villages during 1976-1979. With the sponsorship of the central bank of the country and support of the nationalized commercial banks, the project was extended to Tangail district (a district north of Dhaka, the capital city of Bangladesh) in 1979. As of July, 2004, it has 3.7 million borrowers, 96 percent of whom are women. With 1267 branches, GB provides services in 46,000 villages, covering more than 68 percent of the total villages in Bangladesh.

Sophia Khatoon, a 22-year old skilled furniture maker in the tiny village of Jobra in Bangladesh, worked 7 long days a week, looked twice her age, and lived in abject poverty. She made stools and chairs out of bamboo, which she had to sell to a money lender who provided the credit to buy the raw materials. The price she received barely covered the costs. Dr. Yunus, Professor of Economics at the University in the southern port city of Chittagong who later founded the Grameen Bank-calculated that effectively Sophia was paying interest at the rate of 10% a day, more than 3000% a year. Dr. Yunus could not reconcile the fact that a woman with such skill, who worked so hard, produced such beautiful bamboo furniture and created wealth at such high rate was earning so little. With a loan of 50 Taka (a few dollars), it took Sophia only a few months to establish her own self-employment, increase her income seven folds and repay the loan.

2.8.2. Grameen's Success in Reaching the Poor

In 1993, with 1039 branches covering almost half of Bangladesh's villages, the Bank served more than 1.8 million borrowers and disbursed 169 million dollars. By 1993, cumulative member savings totaled over 218 million dollars. Almost 94 percent of the Bank's members are poor women, accounting for nearly 70 percent of savings mobilized, and receiving over 80 percent of the total loans disbursed. Its loan recovery rate has been consistently over 90 percent compared with rates from 25 to 50 percent for other financial institutions in Bangladesh. Contrary to common belief, Grameen's experience is that women are better credit risks with higher loan recovery rates than men (97 percent compared to 89 percent in 1992), and that the dropout rate is lower for women (15 percent) than for men (25 percent). The Grameen model is being replicated in more than 30 countries and the World Bank has provided a grant of 2 million dollars for its replication in low-income countries.

2.8.3 Grameen's Success in Poverty Reduction

Preliminary analysis suggests that Grameen Bank has generated a number of benefits both at the household and village level. At the household level, the benefits from programme participants include changes in income, employment, assets accumulation, networth, and other household welfare indicators (such as contraceptive use, school enrollment of children, etc.). Progamme participation has enabled members to enhance their assets and networth. For example, a programme participating household owns 56 percent more resources and 51 percent more networth than a non participating household. Programme participation has also increased calorie intake, especially among female household members. The incidence of poverty is substantially reduced among programme participants. Labour force participation, especially among women, is higher among participants than non participants; women labour force participation is 66 percent among programme participants compared to 52 percent for nonparticipants. The school participation rate of girls is also higher than for participants (57 percent) than for nonparticipants (36 percent). Programme participation also increases the use of contraceptives, better toilet facilities, and better drinking water. In addition, programme placement generates income gains for the poor as a whole through its impacts on the local resource allocation. For example, the daily male wage is 23 percent higher in programme villages compared with non programme villages. Even after controlling for village characteristics, the study finds that up to 11 percent of the 23 percent wage increase is due to Grameen Bank programme placement.

2.8.4 Impact Assessment of Microfinance Interventions in Ghana and South Africa

This section presents an impact assessment study carried out by Afrane (1997). The study constitutes two case studies from Ghana and South Africa. The first case study involves Sinapi Aba Trust (SAT) in Ghana. SAT is an implementing partner of Opportunity International (OI), an international NGO headquartered in Chicago, USA, and involved in microenterprise financing in over 40 countries in the Third World, Eastern Europe, and Russia. SAT operations began in October 1994, and it has since offered services to over ten thousand clients in all the ten regions of Ghana, supporting SMEs in the trading, manufacturing, services, food industry, and agricultural sectors.

The second case study is the Soweto Microenterprise Development (SOMED) project-a microfinance programme initiated in 1994 to provide credit and training to small and microenterprises in South West Townships (Soweto) of Johannesburg in South Africa. The programme involved the provision of institutional development and lending capital for a microenterprise credit scheme being undertaken by SEED Foundation (formerly Izibuko Foundation), which was an implementing partner of the Opportunity International (OI).

SOMED was initiated by SEED Foundation with the support of the Australian Agency for International Development (AusAID) and other donors to create sustainable jobs to increase levels of household income, to reduce poverty, and to improve the standard of living as well as quality of life of the poor in Soweto for a five-year period. At the end of the project period, SOMED was expected to impact the lives of over 300,000 people, create new jobs, sustain 8,000 existing jobs, make 78,000 loans, inject more than $5 million into the community, and facilitate the establishment of 6,920 new enterprises; 4,156 of these would be started and owned by women.

The impact study of SAT was undertaken in 1997 and sought to assess the nature and degree of changes that clients have experienced in their business since they started benefiting from the credit scheme, and to further examine the extent to which these changes in their businesses have affected other aspects of their lives. SOMED project was also evaluated in 1998 to assess the impact of the project so that the lessons emerging from the review could inform the ongoing project implementation process. The studies established that 43% and 44% of the enterprises in Ghana and South Africa, respectively, took on new workers. In addition, the total number of people employed by the enterprises surveyed increased by 46% and 49% respectively, for SAT and SOMED. Both the qualitative and quantitative results of the two studies showed an improvement in the conditions of the clients following the receipt of credit.

Generally, manifestations of positive changes were observed in almost all the impact indicators defined, namely, economic, social, access to facilities, and spiritual. On the average, a moderate level of impact was achieved for both projects with ten and six indicators scoring "high" impact levels for SOMED and SAT, respectively. In more specific terms, differing degrees of positive impacts was recorded in each of the projects in the areas of business turnover, procurement of inputs/raw materials and machinery, creation of additional jobs, acquisition of business skills, marketing outlets, acquisition of domestic assets, increased access to quality food and nutrition intake, water and sanitation facilities, and health services. For instance, turnover increased by 157% and 118% on the average for clients in SAT and SOMED, respectively. These increases indicate that injections of small amounts of capital into microenterprises are capable of raising the incomes of the operators to appreciable levels within a relatively short time. On the other hand, the impact results of the social and spiritual domains contained mixed positive and negative effects, as compared with the other two domains. The positive impacts included enhanced public respect and acceptance, self esteem, participation in community activities, monetary contributions to social projects, and empowerment of women. On the negative side, pressure time resulting from increased business activities, worsening family relations, poor church attendance, and participation in church activities were observed.

The evidence from these two studies indicates that although microfinance programmes have every potential to improve the conditions of beneficiaries, they also tend to create disturbing negative impacts if necessary counteracting measures are not taken. The challenge, therefore, to MFIs is to be mindful of these negative tendencies so that appropriate steps can be taken to minimize these effects as much as possible in the design of credit.

In addition, the results of the studies confirm that the impact of the credit schemes on empowerment of women is significant. The ability of the women to out– perform the men in terms of business performance as measured by increases in turnover also underscores the competence of women in enterprise development. The additional effects of the economic gains by way of their enhanced ability to contribute to family finances reduced dependence on their husbands, improved self-worth and confidence, increased social involvement in community affairs, and so forth, justify the greater focus of microfinance projects on women in many countries.

The report of the study concludes that the two impact studies have established that microfinance projects have impacted the businesses and lives of beneficiaries in several positive ways, particularly in their economic circumstances and access to essential life-enhancing facilities and services. On the other hand, some disturbing and unintended effects have been observed in the social and spiritual dimension of the lives of the clients. This implies that although microfinance projects are expected to generate positive impacts, in some cases, such projects tend to have some adverse effects, particularly on the social and spiritual lives of beneficiaries.

2.9 Key Lessons Drawn From the Literature Review

It has been realized in the literature review that since the idea of microfinance came up in the 1980s, governments, international donor organizations, NGOs, private organizations, etc. have been actively involved in trying to reach the poor with microcredit services. It is also realized that microfinance has been more successful in Asia than any continent serving close to 22 million poor people and low income households in the region. Considered as an effective poverty reduction tool, most microfinance programs have targeted women than it did with men. This is justified as desirable because of experience of high female repayment rates and also as a tool for gender equality and women empowerment.

The literature review showed that microfinance programs have transformed the socio-economic lives of beneficiaries and thus contributing to poverty reduction. Results of most impact assessment studies established that women access to microfinance services have improved economic circumstances and access to essential life-enhancing facilities and services. The results also concluded that improvement in women economic gains have also enhanced their ability to contribute to family finances, reduced dependence on their husbands, improved self-worth and confidence, and increased social involvement in community activities. All these findings can be summarized and concluded that microfinance has contributed to poverty reduction and women empowerment.

CHAPTER 3

METHODOLOGY

3.1 INTRODUCTION

Measures to ensure the validity and reliability of data depend on the approach used in collecting the data. The validity and reliability depend on the precision with which the key variables of interest are collected. To ensure precision, appropriate selection of the sample was vital to providing estimates. The methodology was grouped into Sampling Framework, Data collection and analysis.

3.2 SAMPLING FRAMEWORK

The selection of respondents for the questionnaire or interview was guided by the sampling framework. The process involved a sample design, identification of a sample frame and a determination of an appropriate sample size to ensure proper representative of the client population.

3.2.1 Sample design

The study covered four geographic areas which included Ashanti Region, Eastern Region Greater Accra and Brong Ahafo Region where the branches of FASL are located. The sample design centred on the inclusion of new and repeat (continuing) clients of FASL on the basis of gender, enterprise sector and geographic location.

In March 2008, when the sample design was developed FASL had nine branches in all the four regions stated above. Researcher decided that the sample of clients should be from Greater Accra Region (i.e. Adabraka branch and Tudu branch) and Ashanti Region (i.e. Adum Branch, Asafo Branch, Roman Hill Branch, Suame Branch and Obuasi Branch) since these were the branches with established microfinance programmes. In addition, Techiman and Nkawkaw in the Brong Ahafo Region and Eastern Region respectively were included as representing FASL's office in the rural areas.

Determination of the sample size took into account the need to have sufficient statistical power to detect changes during the period of administering the questionnaire. It also had to account for the likelihood of not being able to locate some of the clients selected for the study. As a result, all clients who have specified their business locations and residence on their loan contract forms were selected for the study.

3.2.2 Sample Selection Procedure

To draw the sample, a printout was obtained from FASL of all loans given from April 1, 2007 to April 30, 2008. These lists consisted of 12,867 clients from all the branches. The lists provided details on each client: name, date of loan, amount of loan, repayment period, business sector and the number of loans client has received.

Thereafter, examination of the lists showed that for new clients, the period March 1, 2008 to April 30, 2008 would provide a sufficient population for sampling because of the two-month compulsory savings requirement for new entrants. The total number of sample population of new clients was 4,650. There were a lower number of clients who had applied for both repeat and new loans than anticipated; therefore, in order to achieve a sufficient number of clients, the period April 1st to June 30, 2008 was selected for administering the questionnaire and interviewing.

Client records were sorted by geographic area, sector, loan officer and expected date for disbursement. A proportional sampling approach was applied in identifying the sample size for each geographic area. Thereafter, a random sampling technique was adapted in distributing questionnaire to the chosen sample of clients defined by gender, business sector, level of education, age and size of loan.

3.3. DATA COLLECTION AND ANALYSIS

In terms of data collection, questionnaire and interviews was the main instrument used during the study. The questionnaire collected both quantitative and qualitative data from the clients who fell within the sample. This section explains how the questionnaire was designed, the data collection, the data entry, cleaning and analysis.

3.3.1. Questionnaire design

The design of the questionnaire involved a series of stages over several weeks. First, an initial set of hypothesis and variables was drawn up by the researcher which focused on indicators like age of the microfinance scheme, social ties, delinquency issues, loan size, outside credit options and demographic data of clients. Secondly, the researcher spent two weeks at Asafo Branch carrying out open-ended questions to test if the hypothesis and variables or indicators seemed to be appropriate. Concomitantly, the researcher carried out in-dept interviews on the products of FASL to identify ways that these might be covered in the questionnaire.

3.3.2. Primary data collection

The primary data collection was based on personal interviews and questionnaires from Directors, managers, loan officers and micro entrepreneurs. The field work began on April 1st 2008 and continued until June 30th, 2008.

In each of the four geographic areas the daily pattern was similar. Each morning before moving to the field, the researcher reviewed the interviews held the previous day. Completed questionnaires were also checked. Throughout the day in the field the researcher kept close watch on progress and problems. While difficulties were encountered with specific questions, many of these were rectified as the questionnaire was being administered. In few cases, respondents could not read the questionnaire and researcher read and explain questionnaire to respondents in the local language (Twi, Ga and Bono)

3.3.3. Secondary data collection

Secondary sources such as FASL management reports and year and financial statements, Bank of Ghana's (BOG) on-site and off-site reports, Ghana Microfinance Institutions Network (Ghamfin) reports, Microfinance consensus guidelines and Ministry of Finance and Economic Planning reports on the general trend of the economy, Internet and other publications was used to gather information on the performance of credit delivery methodologies.

3.4 DATA ANALYSIS

Once the questionnaire had been administered, the researcher entered the data from each questionnaire using a prepared SPSS format for data analysis.

CHAPTER 4
RESEARCH FINDINGS

4.0 INTRODUCTION

It is important to present the findings and results of the data collected from the survey. This section presents and explains the baseline findings. Where appropriate, this section assesses key factors like demographic data, validity of customers' business location, the loyalty of customers etc.

4.1. DEMOGRAPHIC DATA

Demographic data provide a foundation for understanding differences and similarities in human resource base of clients. An identification of the level of education, the age pattern, the gender classification, residence and business location of clients is vital in the assessment of any microfinance programme.

4.1.1 GENDER CLASSIFICATION

GENDER AND EDUCATIONAL LEVEL OF CLIENTS

Count

		EDUCATIONAL LEVEL OF CLIENTS					
	Key characteristic	No Education	J.S.S or M.S.L.C	'O' Level	S.S.S or 'A' level	Tertiary	Total
GENDER OF CLIENTS	Male	0	64	16	12	0	92
	female	16	52	0	16	24	108
Total		16	116	16	28	24	200

Table 1.

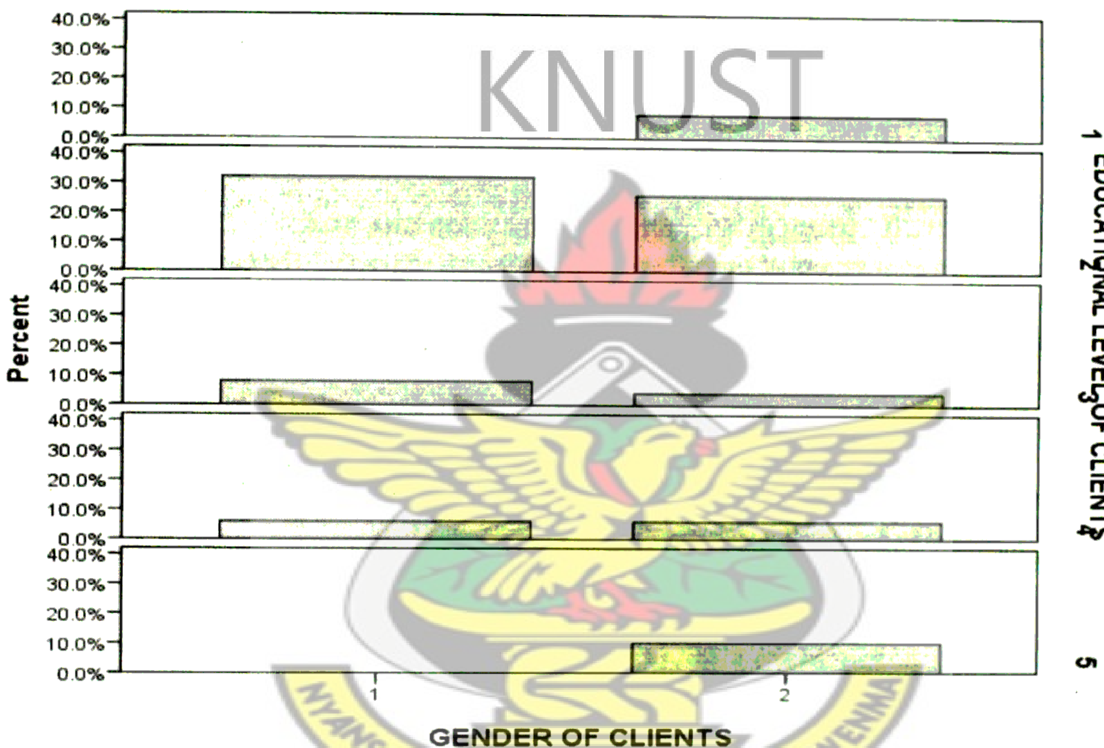
Source: Field Survey Data, 2008

From table 1, Out of the 200 respondents, 92 were male and 108 were female. Out of the 92 male respondents, none of the male respondent is illiterate, 64 have the Basic Education Certificate Examination or the Middle School Level Certificate, 16 have the Ordinary Level Certificate, 12 have completed the Senior Secondary School or the Advanced level of Education and none of male respondents has got a Tertiary Education.

Also, out of the 108 female respondents, 16 have no formal education, 52 have the Basic Education Certificate Examination or the Middle School level Certificate, 16 have completed the Senior Secondary School and 6 have got Tertiary Education.

In summary, out of the 200 respondents, 16 clients have no formal education, 116 clients have completed the junior secondary school or the middle school, 16 clients have completed the ordinary level of education, 28 clients have completed the senior secondary school or the advanced level and 6 clients have got a tertiary education.

Figure 1) : A PERCENTAGE GRAPH SHOWING EDUCATIONAL LEVEL AGAINST GENDER OF CLIENTS



From figure 1, the horizontal axis represents Gender of Clients and the Vertical axis represents Educational level of clients. Gender of clients 1 represents male and 2 represents female. On the vertical axis, where we have educational level of clients, 1 represents respondents with no formal education, 2 represents respondents JSS or MSLC, 3 represents respondents with 'O' Level Education, 4 represents respondents with S.S.S or 'A' level Education, while 5 represents respondents with Tertiary Education.

Figure 1 shows that about 10% of the female have no formal education, about 20% of the female respondents have completed Junior Secondary School, less than 10% have completed either Secondary School or the Advanced level of education and about 10% of the female respondents have completed the Tertiary Education. Figure 1 also shows that none of the male respondents is an illiterate, about 30% of the male respondents have completed Junior Secondary School, and less than 10% have completed either Secondary School or the Advanced level of education and none of the male respondents have acquired Tertiary Education.

4.1.2 CLASSIFICATION OF AGE PATTERN AND LEVEL OF EDUCATION.

The study identified 5 educational level and 4 age distribution levels as shown in table 2 below.

Table 2

Source: Field Survey Data, 2008

AGE AND EDUCATIONAL LEVEL OF CLIENTS

Count

	Key characteristic	EDUCATIONAL LEVEL OF CLIENTS No Education	J.S.S or M.S.L.C	'O' Level	S.S.S or 'A' level	Tertiary	Total
AGE OF CLIENTS							
	19yrs to 40yrs	12	64	20	12	0	108
	41yrs to 60 yrs	0	44	4	12	16	76
	Above 60yrs	4	8	0	0	4	16
Total		16	116	24	24	20	200

From table 2, out of the two hundred (200) respondents, one hundred and eight (108) are between the ages of nineteen (19) and forty (40) years from which twelve (12) have no formal education, sixty-four (64) have the Junior Secondary School or the Middle School Certificate, twenty (20) have the 'O' Level Certificate, twelve (12) have the Senior School or the 'A' Level Certificate and none of them has a tertiary education.

Seventy six (76) out of the two hundred (200) respondents are between the ages of forty-one (41) and sixty (60) years. Out of these seventy (76) respondents no one is illiterate, forty-four (44) have Junior Secondary or the Middle School Certificate, only four have 'O' Level Certificate, twelve (12) have Senior Secondary or 'A' Level Certificate and sixteen (16) have tertiary education. Also out of the two hundred respondents (200) respondents, sixteen (16) were above the age of sixty (60) years. Four (4) have no education, eight (8) have Junior Secondary or the Middle School Certificate, and none has 'O' Level, Senior Secondary or 'A' Level Certificate and only four have tertiary education

4.1.3 THE SUITABILITY OF CUSTOMERS' BUSINESS LOCATION

The study identified two key characteristics in assessing the validity of customers' business location within and outside Kumasi as shown in table 4.

Table 3

SUITABILITY OF BUSINESS LOCATION

Count

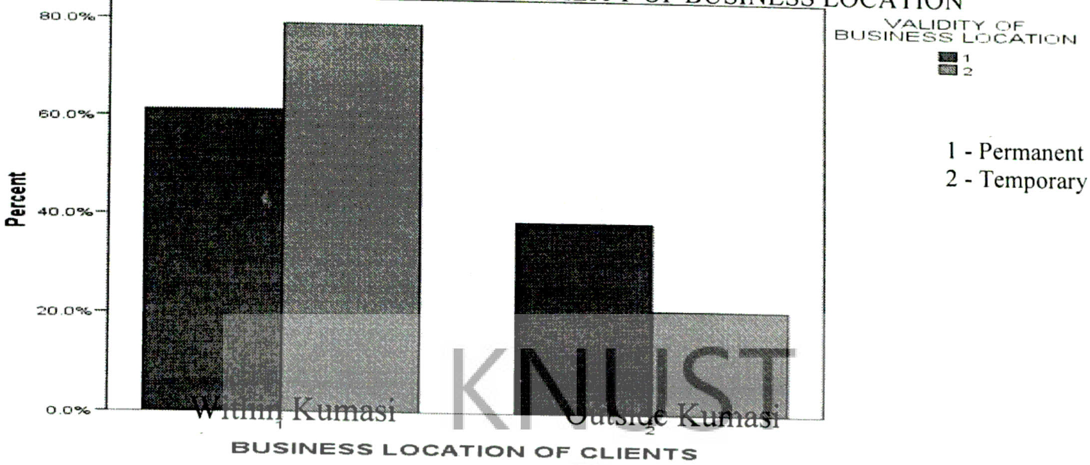
	Key characteristic	SUSTAINABILITY OF BUSINESS LOCATION: Permanent	SUSTAINABILITY OF BUSINESS LOCATION: Temporary	Total
BUSINESS LOCATION OF CLIENTS	Within Kumasi Metropolis	76	60	136
	Outside Kumasi metropolis	48	16	64
Total		124	76	200

Source: Field Survey Data, 2008

From table 3, the study revealed that, one hundred and twenty four out of the two hundred respondents have permanent business location from which seventy six are located in Kumasi and forty eight are located outside Kumasi. From figure 3, about 60% have permanent business location and reside in Kumasi and about 40% have permanent business location and reside outside Kumasi.

On the other hand, seventy six (76) out of the two hundred (200) respondents have temporary business location as in table 3, from which about 80% have their businesses located in Kumasi and about 20% are located outside Kumasi according to figure 3.

Figure 3: A GRAPH ASSESSING THE SUSTAINABILITY OF BUSINESS LOCATION



4.2. PRODUCTS OF FASL

Products of First Allied are categorised under Deposit-taking and Advance granting products. As shown in table 5, the deposit- taking products comprise of current, savings, fixed deposit, ordinary susu, golden-plus susu and the premium golden susu. Also the advance granting products include allied mpontu (group loan), commercial (individual), consumer credit, travel credit, premium golden and golden plus susu.

Table 4

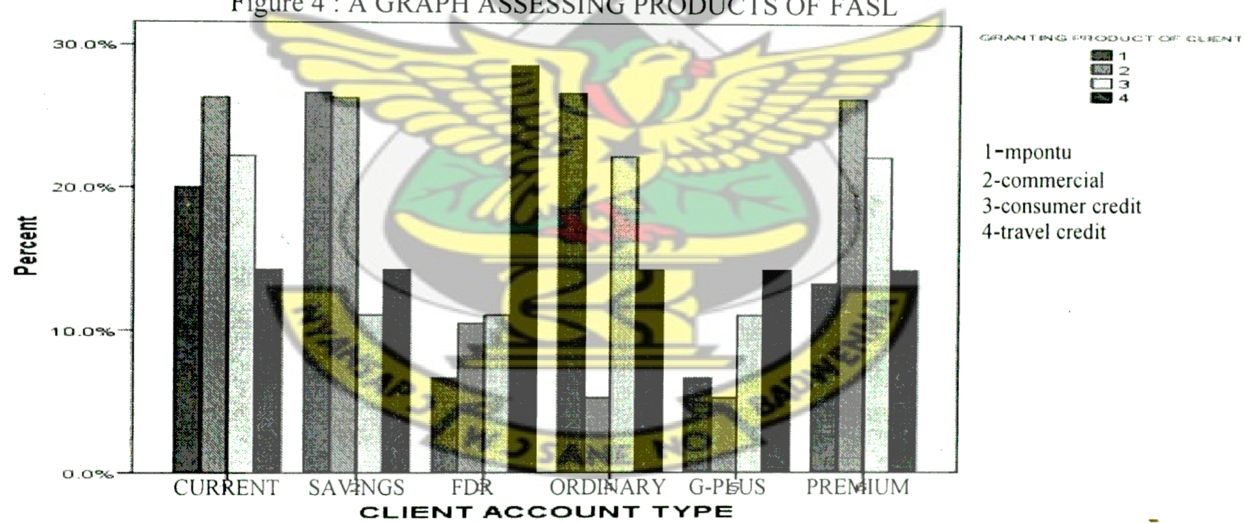
DEPOSIT-TAKING PRODUCTS AND ADVANCE GRANTING PRODUCTS

Count

		ADVANCE GRANTING PRODUCTS				
	Key characteristic	MPONTU LOANS	COMMERCIAL LOANS	CONSUMER CREDIT	TRAVEL CREDIT	Total
DEPOSIT-TAKING PRODUCTS	CURRENT	12	20	8	4	44
	SAVINGS	16	20	4	4	44
	FIXED DEPOSIT	4	8	4	8	24
	ORDINARY SUSU	16	4	8	4	32
	GOLDEN-PLUS	4	4	4	4	16
	PREMIUM GOLDEN	8	20	8	4	40
Total		60	76	36	28	200

Source: Field Survey Data, 2008

Figure 4 : A GRAPH ASSESSING PRODUCTS OF FASL



(DEPOSIT-TAKING PRODUCTS)

From table 5, the study revealed that eighty-eight out of the of the two hundred respondents are operating current accounts and savings account, twenty-four have purchased a fixed deposit receipt and eighty-eight are operating the three types of susu programme.

From figure 5, about 20% of the current account holders have also taken the mpontu loan; about 25% have taken the commercial loans, while travel credit is less patronized by these account holders. From figure 5, it can be seen that all the respondents are patronizing either the advance granting and deposit-taking products in or the other.

4.2.1. Means of marketing deposit-taking products

The study identified three means First Allied uses in marketing its deposit taking products. These marketing means are staff, the media and fellow customers as shown in table 6 below

Table 5

MEANS OF MARKETING DEPOSIT TAKING PRODUCTS

		MARKETING MEANS			
	Key characteristic	STAFF	MEDIA	FELLOW CUSTOMERS	Total
DEPOSIT-TAKING PRODUCTS	CURRENT	20	8	4	8
	SAVINGS	16	4	8	10
	FIXED DEPOSIT	8	12	4	6
	ORDINARY SUSU	8	12	12	8
	GOLDEN-PLUS	16	4	4	6
	PREMIUM GOLDEN	20	24	4	12
Total		88	76	36	200

Source: Field Survey Data, 2008

From table 5, the study revealed that most of the deposits taking products are marketed by staff, followed by the media and customers as displayed with frequencies of 88, 76 and 36 respectively.

4.2.2 Means of marketing advance granting products

Table 6

MEANS OF MARKETING ADVANCE GRANTING PRODUCTS

		MARKETING MEANS			
	Key characteristic	STAFF	MEDIA	CUSTOMERS	Total
ADVANCE GRANTING PRODUCTS	MPONTULOAN	36	8	16	60
	COMMERCIAL LOANS	12	56	8	76
	CONSUMER CREDIT	20	4	12	36
	TRAVEL CREDIT	16	8	4	28
Total		84	76	40	200

Source: Field Survey Data, 2008

From table 6, the study revealed that most of the advances granting products are marketed by staff, followed by the media and customers as displayed with frequencies of 84, 76 and 40 respectively.

Means of marketing products in relation to the number of years customers have worked at FASL.

This section identifies how clients heard about the products at First allied and the year they joined the scheme. The study classified these years into three main categories and marketing means also into three main categories as shown in table 8 below.

Table 7

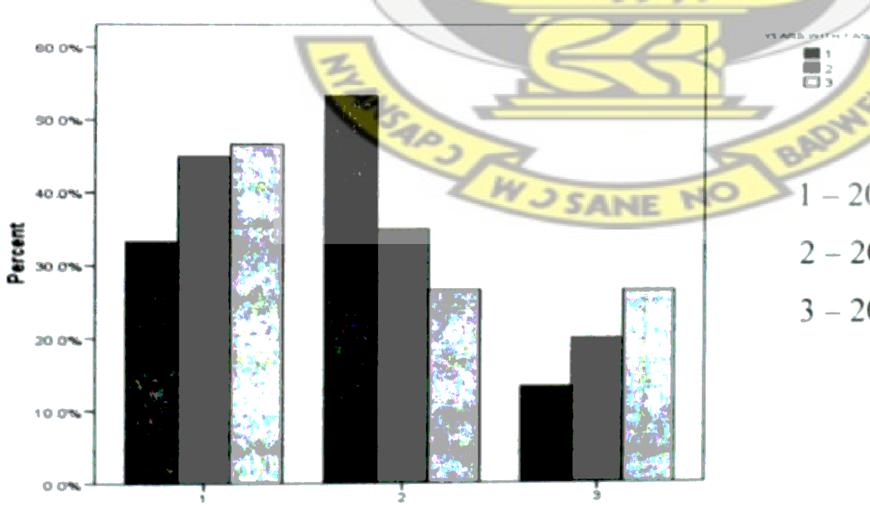
YEARS CUSTOMERS JOINED FASL

Count

		MARKETING MEANS			
	Key characteristic	STAFF	MEDIA	CUSTOMERS	Total
YEARS WITH FASL	2002 to 2004	20	32	8	60
	2005 to 2006	36	28	16	80
	2007 to Date	28	16	16	60
Total		88	36	40	200

Source: Field Survey Data, 2008

Figure 5



Staff **Media** **Customers**

1 – 2002 to 2004

2 – 2005 to 2006

3 – 2007 to date

Table 7 has shown that most of the respondents joined First Allied between the years 2005 and 2006 as represented with a total frequency of eighty (80) out of the two hundred (200) respondents. During this period, most of the products were marketed by their staff, followed by the media and customers in that order as shown in table 8 with frequencies of 36, 28, and 16 respectively out of the eighty (80). According to the survey, sixty (60) clients out of the two hundred (200) respondents joined First Allied from 2007 to date.

According to figure 5, more than fifty percent (50%) of the respondents who heard and joined First Allied between 2002 and 2004 were through the media but the percentage of the sampled customers who heard the products of FASL through the media has been relatively decreasing. However, the contribution of staff and customers in marketing the products of FASL have been relatively increasing.

4.3. LOAN TAKEN BY FIRST TIME BORROWERS

This section identifies the initial loan taken by borrowers. The study classified the initial loan taken by clients into four main categories as shown in table 9 below.

Table 8

INITIAL LOAN AMOUNT

		AMOUNT FOR 1ST LOAN				
	Key characteristic	Less than GH¢500	Between GH¢501 and GH¢1000	Between GH¢1001 and GH¢1500	Above GH¢1500	Total
YEARS WITH FASL	2002 to 2004	16	20	20	4	60
	2005 to 2006	4	36	24	16	80
	2007 to Date	24	24	4	8	60
Total		44	80	48	28	200

Source: Field Survey Data, 2008

Figure 7

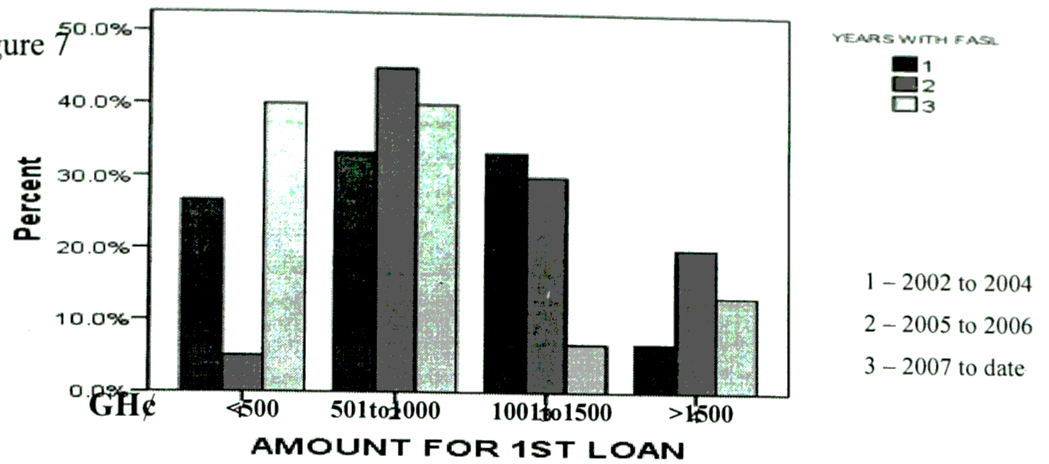


Table 8 shows that, forty four of the two hundred respondents took less than five hundred Ghana cedis (GH¢500). According to the Graph at figure 7, the clients who took less than five hundred Ghana cedis (GH¢500) has increased from about 28% at the end of 2004 to about 40% from 2007 to date.

Eighty out of the two hundred respondents took initial loan amount between GH¢501 and GH¢1000 and thirty six of the two hundred respondents also took initial loan amount above one thousand Ghana cedis.

According to figure 7, the percentage of respondents who took initial loan amount above GH¢500 have reduced from 2007 to date as compared to the end of year 2006.

4.3.1 Loan duration

This section identifies the number of months respondents have been given to repay their loans. Since it is short term loan, the duration for the repayment ranges between 6months and one year as shown in table 10 below

LOAN DURATION

	Key characteristics	NUMBER OF MONTHS				
		6 months	8 months	10 months	12 months	TOTAL
AMOUNT FOR CURRENT LOAN	Less than GH¢500	4	4	16	4	28
	Between GH¢501 and GH¢1000	4	20	24	16	64
	Between GH¢1001 and GH¢1500	4	4	20	8	36
	Between GH¢1501 and GH¢2000	8	16	8	4	36
	Above GH¢2000	12	4	16	4	36
Total		32	48	84	36	200

Table 9

Source: Field Survey Data, 2008

From table 9, it can be seen that, thirty-two of the two hundred respondents preferred to use six months to repay their loans from which twelve respondents took loan amounts above two thousand Ghana cedis. From this same table, eighty-four out of the two hundred respondents preferred to use ten months to repay their loans and this represent the modal group.

4.4. BUSINESS SECTOR OF CLIENTS.

The section identifies the sector of business respondents belong to. The study identified four business sectors; production, construction, trade, service.

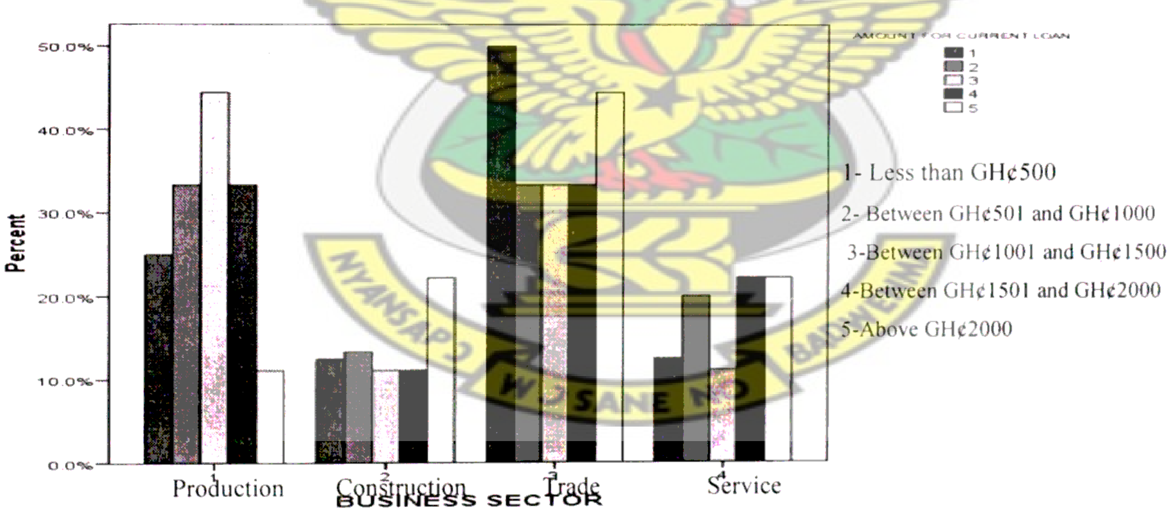
Table 10

BUSINESS SECTOR

	Key characteristics	AMOUNT FOR CURRENT LOAN					Total
		Less than GH¢500	Between GH¢501 and GH¢1000	Between GH¢1001 and GH¢1500	Between GH¢1501 and GH¢2000	Above GH¢2000	
BUSINESS SECTOR	Production	8	20	16	12	4	60
	Construction	4	4	4	4	8	24
	Trade	16	24	12	12	16	80
	Service	4	12	4	8	8	36
Total		32	60	36	36	36	200

Source: Field Survey Data, 2008

Figure 8



From table 10, eighty of the two hundred respondents is the modal group and they represent respondents who belong to the trade sector. It can also be seen from figure 8 that about 60% of these traders take loan amounts less than five hundred Ghana cedis.

4. 4.1. Loan diversion

This section identifies those respondents who have changed the nature of their business after taking the loan.

Table 11

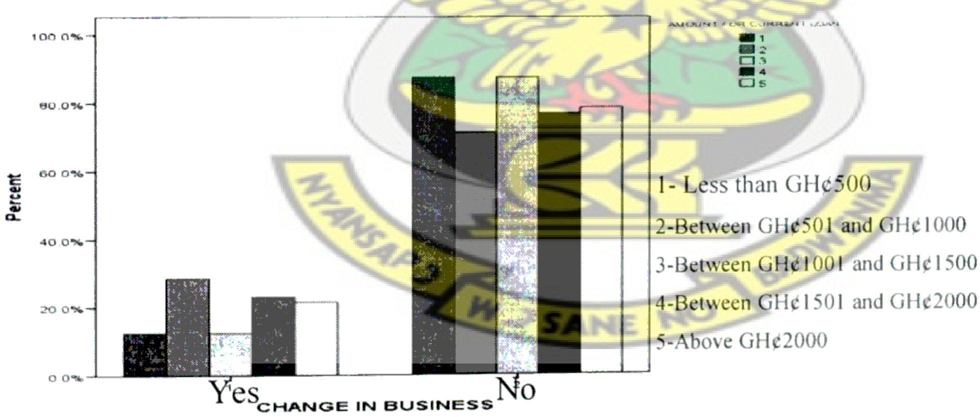
CHANGE IN BUSINESS

Count

	Key characteristics	CHANGE IN BUSINESS: Yes	CHANGE IN BUSINESS: No	Total
AMOUNT FOR CURRENT LOAN	Less than GH¢500	4	28	32
	Between GH¢501 and GH¢1000	8	24	32
	Between GH¢1001 and GH¢1500	4	28	32
	Between GH¢1501 and GH¢2000	12	36	36
	Above GH¢2000	12	44	56
Total		40	160	200

Source: Field Survey Data, 2008

Figure 9



From table 11, forty (40) of the two hundred (200) respondents have changed their businesses and one hundred and sixty (160) out of the two hundred (200) respondents did not change their businesses after taking the loan. From figure 9 it can be seen that those who have changed their businesses after taking the loan have a relative lower percentage as compared to those who do not change their businesses after taking the loan.

4.4.2. Social ties

This section identifies the relationships that exist among group members or a loan applicant and his guarantor.

Table 12

RELATIONSHIP BETWEEN GROUP MEMBERS

Count

	Key characteristics	RELATION WITH GUARANTOR: Business Partner(s)	Family Member(s)	Friends	Total
PENDING LOAN	Less than GH¢500	16	0	0	16
	Between GH¢501 and GH¢1000	44	24	24	92
	Between GH¢1001 and GH¢1500	12	36	0	48
	Between GH¢1501 and GH¢2000	16	12	0	28
	Above GH¢2000	0	16	0	16
Total		88	88	24	200

Source: Field Survey Data, 2008

From table 12, eighty eight of the two hundred respondents are in the same kind of business with their guarantors. Also, eighty-eight of the two hundred respondents who have taken loan from First Allied have family members as their guarantors where as twenty four from the two hundred respondents have their friends to be guarantors.

4.4.3 Interest rate

This section identifies the interest rate respondents will prefer to borrow.

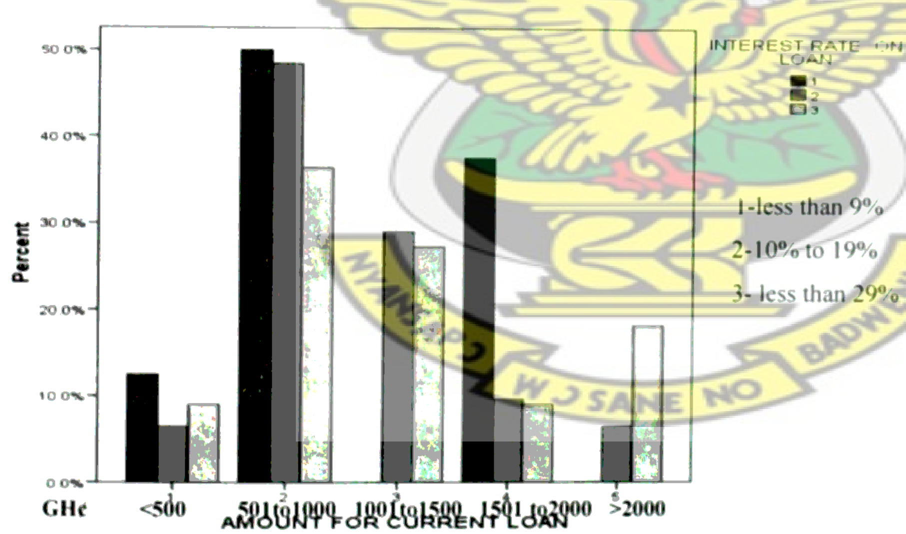
Table 13

PREFERABLE INTEREST RATE ON LOAN

		INTEREST RATE			Total
		< 9%	10%to 19%	>29%	
PENDING LOAN	Less than GH¢500	0	12	4	16
	Between GH¢501 and GH¢1000	16	60	16	92
	Between GH¢1001 and GH¢1500	0	36	9	48
	Between GH¢1501 and GH¢2000	12	12	4	28
	Above GH¢2000	0	8	8	16
Total		28	128	44	200

Source: Field Survey Data, 2008

Figure 10



From table 13, it has been shown that one hundred and fifty six of the two hundred respondents prefer to borrow at an interest rate less than nineteen percent. In figure 10, the interest rate that is preferred by respondents is compared to their pending loan. It can be seen from this figure that, most of the clients prefer to borrow at an interest rate less than nine percent.

4.4.4. The duration of loan application process

The duration of loan application process in this study begins from the date clients submitted applications, followed by assessment, reporting, approval and disbursement. The period for processing loans are grouped into three main categories as shown in table 14 below

Table 14

LOAN PROCESS DURATION

	Key characteristics	LOAN PROCESS DURATION			Total
		< 3days	< 7days	< 14 days	
PENDING LOAN	Less than GH¢500	0	12	0	12
	Between GH¢501 and GH¢1000	24	48	12	84
	Between GH¢1001 and GH¢1500	24	24	0	48
	Between GH¢1501 and GH¢2000	0	12	12	24
	Above GH¢2000	12	0	0	12
Total		60	96	24	180

Source: Field Survey Data, 2008

From table 14, it can be seen that it took less than seven days to process about one hundred and fifty of the one hundred and eighty loan applications received.

4.5. THE CREDIT OPTIONS OF CUSTOMERS

This chapter identifies the credit options of the respondents in relation to the advance granting products of First Allied Savings and loan ltd.

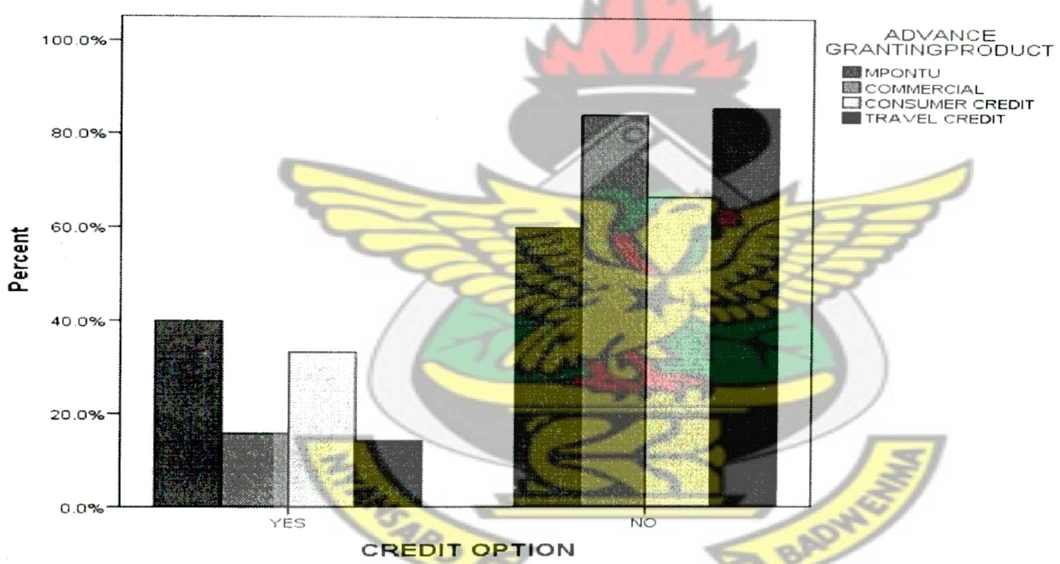
Table 15

OUTSIDE CREDIT OPTIONS

Count		ADVANCE GRANTING PRODUCT				
		MPONTULOANS	COMMERCIAL LOANS	CONSUMER CREDIT	TRAVEL CREDIT	Total
CREDIT OPTION	Yes	24	12	12	4	52
	No	36	64	24	24	148
Total		60	76	36	28	200

Source: Field Survey Data, 2008

Figure 11



From table 15, it has been shown that one hundred and forty eight of the two hundred respondents have no credit option and depend on First Allied for loan to finance their business. From figure 11, it can be seen that those who have no credit option apart from First Allied Savings and Loans ltd have relatively higher percentages as compared to those with credit options.

4.6. THE EXPERIENCE OF STAFF

This section identifies the rank of staff in relation to the number of years they have worked at the credit department

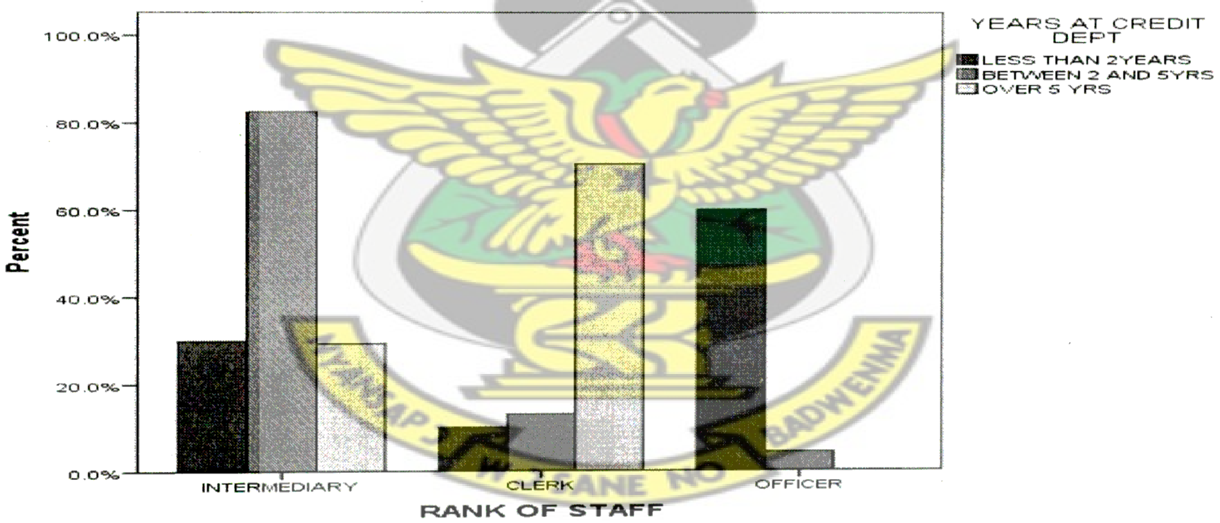
Table 16

EXPERIENCE OF STAFF

		YEARS AT CREDIT DEPT			Total
		less than 2yrs	between 2 and 5yrs	over 5yrs	
RANK OF STAFF	Intermediary	3	19	5	27
	Clerk	1	3	12	16
	Officer	6	1	0	7
Total		10	23	17	50

Source: Field Survey Data, 2008

Figure 12



From table 17, seventeen of the fifty respondents have worked at the credit department for more than five years. However, according to figure 12 none of the respondents who are loan officers have worked at the credit department for more than five years.

4.6.1. Training attended

This section identifies the number of staff who has attended training in relation to credit administration. Training involves both on-the-job and off-the-job training.

Table 17

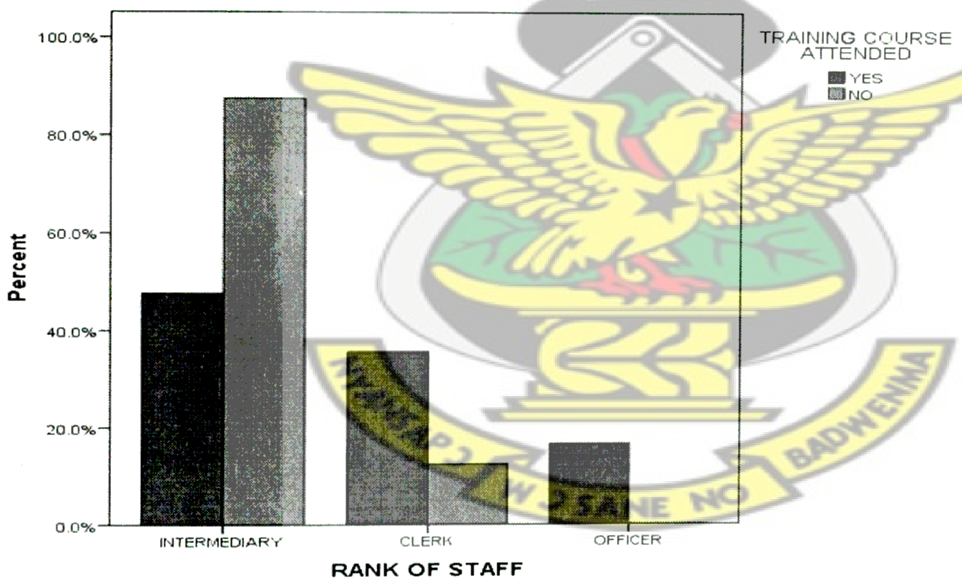
TRAINING

Count

		TRAINING COURSE ATTENDED		Total
		YES	NO	
RANK OF STAFF	INTERMEDIARY	20	7	27
	CLERK	15	1	16
	OFFICER	7	0	7
Total		42	8	50

Source: Field Survey Data, 2008

Figure 13



From table 17, forty two of the fifty respondents who are staff have undergone training. From figure 13, all the officers who responded to the questionnaire have undergone training.

4.7. THE SUSTAINABILITY OF THE SCHEME

4.7.1. Recovery rate of loans

The table below shows the recovery rate of all the advance granting products from December 2002 to December 2007. Recovery rate is calculated by dividing the actual loan repayment by the expected loan repayment.

That is : Recovery Rate = $\frac{\text{Actual loan Payment}}{\text{Expected loan Payment}}$

Table 18: Recovery rate from December 2002 to December 2007

PORTFOLIO QUALITY	DEC 2002	DEC 2003	DEC 2004	DEC 2005	DEC 2006	DEC 2007
PRODUCT	RECOVERY RATE	-	-	-	-	-
Commercial & Institutional	91.40%	94.00%	92.50%	93.20%	90.55%	88.62%
Travel	98.45%	97.00%	97.00%	97.00%	98.19%	96.47%
Salary	93.28%	90.00%	94.10%	94.20%	93.34%	91.73%
Consumer	97.20%	98.00%	97.70%	98.00%	93.36%	96.26%
Golden Susu	95.00%	95.50%	94.50%	96.00%	92.48%	93.13%
Super Golden Susu	90.33%	95.30%	97.00%	96.30%	91.62%	90.35%
Allied Mpontu Scheme	99.00%	98.84%	99.20%	99.20%	95.12%	94.80%
Premium Golden Susu	97.00%	100.00%	98.00%	98.00%	96.26%	95.48%
Staff Loan	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total	**96.17%**	**96.86%**	**97.00%**	**97.19%**	**93.00%**	**92.14%**

Source: FASL Credit report, 2008

From table 18, the recovery rate of First Allied Savings and loans has reduced from 96.17% in December, 2002 to 92.14% in December, 2007.

4.7.2. Outstanding loan balances

The table below shows the outstanding loan balances of all the advance granting products of First Allied Savings and Loans ltd from the year 2002 to 2007.

Table 19: Outstanding loan balances

LOAN OUTSTANDING	DEC 2002	DEC 2003	DEC 2004	DEC 2005	DEC 2006	DEC 2007
Commercial & Institutional	4,721,679	4,711,614	4,553,073	5,040,612	5,017,608	5,225,039
Overdraft	1,391,418	1,798,473	2,152,895	2,173,918	1,804,139	3,234,710
Travel	315,346	379,990	385,993	435,963	440,756	466,955
Salary	215,035	227,834	227,493	229,684	286,587	347,333
Consumer	109,898	189,424	199,843	188,278	180,552	172,287
Golden Susu	6,595,235	6,722,600	6,820,748	7,263,513	7,386,165	7,605,141
Super Golden Susu	435,259	390,240	428,855	417,549	387,882	397,088
Allied Mpontu Scheme	2,136,271	2,065,225	2,046,492	1,878,479	1,870,694	1,857,832
Premium Golden Susu	301,969	294,100	317,098	327,863	354,058	365,504
SUB TOTAL	16,222,110	16,779,500	17,132,490	17,955,859	17,728,441	19,671,889

Source: FASL Credit report, 2008

From table 19, the outstanding loan balance has increased from GH¢16,222,110.00 in December 2002 to GH¢19,671,889.00 in December 2007.

CHAPTER 5

DISCUSSIONS

5.1 AGE AND EDUCATIONAL LEVEL OF CLIENTS

The study revealed in table 1 that about 92% of the customers of FASL have some level of education. This means that most of their customers can read and understand the terms and conditions of their loan contract agreement. But, if they will apply these terms and conditions, education as a factor alone cannot determine. However, with an average recovery rate of about 96% over the last six years, one can say by this study that, the level of education of the customers is enhancing the credit delivery.

With respect to the age of clients, the study has established that only 8% of the customers sampled are above sixty (60) years and in table 2, 92% of the customers sampled are between nineteen to sixty years. This means majority of the customers of FASL are within the economically active group. Like people world-wide, the economically active group has higher ambition to sustain and expand their businesses. Also, they have family members to take care of. If FASL is able to meet the financial priorities and opportunities of this economically active group it will improve the living standards of these customers which will lead to private sector development.

5.2. VALIDITY OF CUSTOMER'S BUSINESS LOCATION

The evidence from this study indicates that about 60% of the clients have their business and residence within the Kumasi metropolis. This means, FASL can reach most of their customers at a lower cost. The challenge, therefore, to the institution is to be mindful of the competitive environment most of their customers are located in order to avoid over concentration of its products in a particular locality.

In addition, the results of the study indicate that nineteen of the two hundred (200) customers sampled have temporal business location as in table 4, from which about 80% are located in Kumasi and 20% located outside Kumasi. These customers who have temporal business location possess a risk to FASL because they can be reallocated at any time. Example, the decongestion exercise by Kumasi Metropolitan Assembly (K.M.A.) prior to the commencement of CAN 2008, had a negative impact on the loan portfolio of FASL.

5.3. MEANS OF MARKETING PRODUCTS OF FASL

The data in table 5 indicates that 44%, 38% and 18% of the deposit taking products are marketed by staff, media and fellow customers respectively. This means that, staff of FASL achieves a positive impact in marketing the deposit- taking products of FASL. On the other hand, the customers of FASL experienced a relatively lower level of impact of 18% as compared to 44% for staff in marketing deposit-taking products. On the basis of this study, staff contributes greater portion in marketing the products of FASL. Although advertising is used to inform, remind and create awareness about the existence of the products, most of the education is done by the staff.

As can be seen from figure 5, the percentage of the sampled customers who heard the products of FASL through the media has been relatively decreasing, whereas, the contribution of staff and customers in marketing the products of FASL have been relatively increasing. The impact of the media in marketing the products of FASL is decreasing due to the multiplicity of FM stations in the metropolis. It then becomes a disadvantage to pick one FM station to advertise a product because that FM station might not be listened to by the masses within the locality.

5.4. SIZE OF LOAN

Loans provide borrowers with money to supplement their working capital. When loans are invested in an income-generating activity, the result may be an increase in sales revenue; however, loans attract interest charges and commitment fee that must be paid to the lender. Interest on loans and the commitment fee sustains the institution.

In spite of the increase in the outstanding loan balance from GH¢16,222,110 to GH¢19,671,889 (as shown in the credit report, 2008) the sampled customers who took less than GH¢500 have relatively increased over the years likewise customers who took loan amount above GH¢500. This shows that risk has been spread, that is, the portfolio contains a lot of customers with small loan amounts. However, there is a high cost associated with the management of such loans since the portfolio contains numerous clients taking small amount of loan. For instance, the number of credit clients at FASL stood at 13,947 with an outstanding loan balance of GH¢19,671,889. Though the risk has been spread over these clients, there is a high cost associated in managing these clients in respect to monitoring and recovery as compared to when such amounts are disbursed to corporate entities.

The evidence from the study indicates that FASL is truly undertaking microfinance as most of the target customers are those in the small, medium scale enterprises whose borrowing requirements are relatively low.

5.5. LOAN DIVERSION

Loan funds and income are expended to maintain and enhance the households' income generating activities and to acquire items for domestic consumption, assist non household members and cope with unforeseen financial crises. In order to achieve this some clients change their business in anticipation of a higher profit.

Clients overwhelmingly reported during the interview that they use FASL loan funds on their enterprises. The most commonly reported expenditures were on stock, materials and a lesser extent, fixed assets for their enterprises.

From figure 9 it can be seen that those who have changed their businesses after taking the loan have a relative lower percentage as compared to those who do not change their businesses. From the interview, it was realised that most customers who change their businesses after taking the loan have problems with their loan repayment. According to the respondents this is due to the fact that they do not have a fair idea of the business they change to and as a result they fail leading to their inability to repay their loan as scheduled. This means that those who change their businesses after taking the loan have negative impact on the scheme. From figure 9 it has been shown that about eighty percent of the customers do not change their business after taking the loan and this is likely to have a positive impact on the scheme.

5.6. SECURITY

Security provides a comfort and a fallback position to the bank in case the customer defaults in his repayment obligation on the loan facility he or she has taken from the bank. From the study, it has been revealed in table 12 that, the sampled customers have a strong and reliable secondary source. 44% of the sampled customers are in the same kind of business with their guarantors, 44% of the customers and guarantors are relatives, and only 12% of the guarantors and loan applicants are friends. Business partners know what is involved in each others business and family members share sentiments when one of their members is handicapped. This means that family members and business partners are generally accepted as guarantors at FASL Even though the security provided protects the bank, it is imperative that the facility must be provided only where the bank is satisfied with the customer's ability to repay. FASL must therefore be circumspect in the choice and acceptance of security.

5.7. DURATTION OF LOAN APPLICATION PROCESS

The lending process begins from loan origination, loan appraisal, loan approval, loan documentation and disbursement. From table 15, it took less than 7 days to process 87% of the loan applications received from the sampled customers.

A comparison of the recovery rate and the outstanding loan balance reveals that as the outstanding loan balances is increasing, the recovery rate is decreasing. This means that FASL is not able to recover all the loans it disburses. If the recovery rate continues to reduce as the outstanding loan balances increase, FASL will face liquidity problem in the near future.

5.8. CREDIT OPTIONS OF CUSTOMERS

The data from table 16 show that, the sampled customers who have no credit option apart from First Allied Savings and loans ltd have relative higher percentages as compared to those with credit options. FASL captured most of these clients when their businesses were at the infant stage. These customers are very loyal to FASL and it is no wonder they have shown commitment and continue to do business with the bank.

5.9. EXPERIENCE OF STAFF

The field officers (customer intermediaries) of FASL are very experienced because 81% of their total numbers have worked at FASL for more than five years. These customer intermediaries interact directly with the customers and their experiences contribute positively on the scheme. Though none of the officers sampled have worked at the credit department for more than five years, all of them have attended at least a training course and one can count on the knowledge and skill ascertain from such courses.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

The private sector clearly is a key engine of economic growth and one of the best ways to build an economy. Many poor people count on local money lenders and shopkeepers for credit in emergencies and during lean times, some also have access to formal credit. Case Studies of those who have managed to improve their wellbeing indicate that entrepreneurship is the most frequent path out of poverty. Given the right tools, listening to their concerns and identifying their constraints, these entrepreneurs can create jobs and much of the wealth the society requires.

The objective of the study was sought to access the credit delivery in microfinance at FASL Ltd as a financier to the small, micro and medium enterprises in their bid to develop to improve the economy's private sector. Further emphasis was also made on the recovery performance of the scheme. Using a random sampling technique, two hundred customers and fifty FASL staff administered the questionnaire. FASL has since its incorporation carved for itself an enviable reputation among the savings and loans companies within the economy. The institution's reputation has been encapsulated in its sustained programme of provision of efficient and innovative financial services that has met the needs of their customers. From the study, majority of the customers were satisfied with the service delivery of FASL. FASL success within its short period of existence has been due to pro-active strategies that management has been pursuing.

From the study it can be concluded that;

6.1.1. FASL clients are micro entrepreneurs from the economically active group;

The data show that a significant proportion of clients are within the economically active group. Ninety-two per cent of FASL customers are between nineteen to sixty years.

6.1.2. FASL reaches clients at a lower cost;

The evidence from this study indicates that about 60% of the clients have their business and residence within the Kumasi metropolis. This means, FASL can reach most of their customers at a lower cost.

6.1.3. FASL reaches clients who have acquired some level of education;

The study revealed in table 1 that about 92% of the customers of FASL have some level of education. This means that majority of their customers can read and understand the terms and conditions of their loan contract agreement. Though these clients have some level of education, the findings suggest that most micro entrepreneurs at FASL have a low level of knowledge about basic business principles and management, and are receptive to learning more.

Micro entrepreneurs in FASL have permanent business location;

From table 3, the study revealed that, one hundred and twenty four out of the two hundred respondents have permanent business location from which seventy six are located in Kumasi and forty eight are located outside Kumasi. From figure 3, about 60% have permanent business location and reside in Kumasi and about 40% have permanent business location and reside outside Kumasi. This implies that most of the clients have permanent business location and very few have temporal business location.

Staff contributes greater portion in marketing the products of FASL;

The data in table 5 indicates that 44%, 38% and 18% of the deposit taking products are marketed by staff, media and fellow customers respectively. This implies that, staff of FASL achieves a positive impact in marketing the deposit- taking products of FASL.

Micro entrepreneurs in FASL do not lack access to savings facilities;

The evidence from this study indicates that about 60% of the clients have their business and residence within the Kumasi metropolis. Though, the clients of FASL responded that they do not borrow from other sources, almost all respondents have a savings account with a formal institution, and therefore, FASL would need to compete with other institutions for savings deposit.

6.2. RECOMMENDATIONS

6.2.1. Social development

From the findings, it looks as if the benefits are more skewed toward the economic development of clients than their social development. This occurrence may be natural as social changes take a long time to manifest. Management as a matter of recommendation should come out with an additional package that could help with the social improvement of clients. This could be done through collaboration with an organization such as CEDEP and other microfinance NGOs who are more interested in the social development of their clients. There could also be an internal training team that can also help with clients' social transformation.

6.2.2. Agricultural sector development

It is obvious that the scheme does not favour those in the agric sector. Whiles the product continues to serve the commerce and service sector, management should at the same time design a product that those in the agric sector can also take advantage of. This is important because the fight against poverty may not be achieved if those in the agricultural sector are not supported and motivated. Agriculture, considered as the backbone of the economy needs to be supported to enable it attract the people in the already choked commerce and service sector. Grameen Bank has been successful in providing loans to framers in rural Bangladesh and so it is believed FASL can also be successful in that area.

6.2.3. Medium term loans

While we continue to deal with those in the commerce and service sector, their concerns must be given the necessary consideration. On the basis of responses obtained from clients on the product, it is recommended that something be done about the size and period of loan. It is recommended that a client with a good repayment performance be given a hundred percent increase of the previous loan in the repeat loan rather than the fifty percent increase. However the nature of client business should be taken into account so as not to over or under finance the business of customers. It is also recommended that the period of loan be extended to more than twelve months and at the same time be trade sensitive.

6.2.4. Socio-economic data

The research became difficult because clients had to rely on their memory to give their socio-economic situation before joining the scheme. In order to facilitate any future impact assessment of clients, management should come out with a mechanism that will record clients' socio-economic data before they join the scheme. This should be in a form of carrying out a "means test". In the same way, on-going impact assessment mechanism should be established by management so that the outcome will inform policy formulation. With the "means test" mechanism in place, impact assessment could be carried out after each cycle of the loan. This will help test how client's socio-economic development progresses after each cycle of the scheme. The results of this study also indicate that the scheme could be an effective tool for poverty reduction and thus must be expanded to reach more people.

6.2.5. Statutory enactment

In many respect, business development have often been ahead of the legal developments. Given the positive role, the micro-finance industry plays in the society, it is submitted that any statutory enactment or a regulation made to affect that industry. The rules must be written in a simple plain language that the average entrepreneur can read and understand.

More importantly, there should be no place for archaic or confusing legal jargons and technicalities in the drafting or interpretation of micro-finance rules. Above all, the views of the industry participants must be considered in the formulation of the rules. In this connection, the on-going global debate as to whether the industry should be formally regulated should only serve as guides when formulating and a regulatory framework for the industry. Any legal transplant must be done with circumspection.

Furthermore, the government must ensure that the legal system is flexible and efficient to help lenders enjoy rapid judgement from their defaulting clients to improve upon the recovery rate and to enable them generate enough income for growth and expansion. The government must also address the poor recovery rate characterised with Ghana's financial services by way of implementing National Identification Systems to ensure tracking of defaulting customers with ease.

6.2.6. Minimum capital requirement

The minimum capital requirements of 15 billion which is on the high side, the settings of 50% of profits as mandatory reserve before reaching the minimum capital requirements, the inability of the NBFIs to deal in foreign currencies, undertake inter bank clearance and transfers are hampering their performance and the research entreats Bank Of Ghana which is supervising authority to make flexible these iron fisted regulations to pave way for these NBFIs to expand their services to enable them generate additional income growth and expansion.

6.2.7. Establishment of Credit bureau and Apex body

There should be the setting up of Credit Bureau Statistical Office to undertake research of the background of the customers to relay this information to financial providers to enable them effectively grant facilities to credit worthy customer to ensure growth of their recovery. There is therefore the need to strengthen the authorised apex body Ghana Microfinance Institution Network (GHAMFIN) for micro finance institutions that will see to the general development of the microfinance sector. The apex body will then be authorised agency that would be charged with the regulation, supervisions and the development of the system.

6.2.8. Financial support

Financial support is the most vital area to promote the small, micro and medium enterprises in Ghana. Apparently, the foregoing analysis suggests that government has since independence been making impressive efforts to assist small scale businesses in the form of credit. However, it must be emphasised that the impacts of these efforts have not been very significant. The problem of finance still appears to be intractable among small business holdings. While funds made available under the various schemes are simply not adequate, an overwhelming majority of small business holdings are not aware of such facilities. Other problems thwarting the government's effort include the diversion f funds, low recovery rate and institutional bureaucracy. Therefore in order for government to ensure that its efforts are not in vain, the government can choose to support the microfinance institutions through macro policies, the allocation of resources that affect micro production, or work with these institutions that provide services and training. Government's active collaboration involves the establishment of favourable climate to enable these institutions to continue and expand their work with support but not interference from government entities. These efforts can include recognition of micro enterprises sector, support to discuss issues confronting their smooth operations, funding research and scaling up pilot programmes.

6.2.9 Outreach Services

The microfinance sector in Ghana is a young and dynamic sector with a lot of potential. But up to now, few microfinance institutions have displayed satisfactory performance in key categories such as outreach, management and sustainability. FASL needs to intensify its outreach services to bring full banking services to the door steps of its numerous micro entrepreneurs who have been neglected by the banking industry.

6.2.10 Management quality and corporate governance

Commercial microfinance institutions must significantly improve on management quality and corporate governance, if they are to succeed at this time of rapid market change. About a decade ago, microfinance was largely unknown and obscure. But today, it is one of the fastest growing sectors contributing significantly to the development of third world countries.

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THIS QUESTIONNAIRE IS FOR ACADEMIC PURPOSES AND WOULD NOT BE USED OTHERWISE. PLEASE FILL OUT THIS QUESTIONNAIRE TO THE BEST OF YOUR ABILITY.

TICK WHERE APPROPRIATE. THANK YOU

QUESTIONNAIRE FOR CLIENTS

1. Gender: Male ☐ Female ☐
2. How old are you?
   Less than 18 years ☐ 19 to 40 years ☐ 41 to 60 years ☐
   Above 60 years ☐
3. What is your level of Education?
   No formal Education ☐ JSS or MSLC ☐ 'O' level ☐
   SSS or "A" level ☐ Tertiary ☐ Others ☐

IDENTIFICATION

4. Where is your business located?
   ……………………………(Within Kumasi Metropolis) ☐
   ……………………(Outside Kumasi Metropolis but in Ashanti Region) ☐
   Others: Specify……………………………………………… ☐
5. Is your business location permanent or temporary?
   Permanent ☐ Temporary ☐
6. Where do you reside?
   Within Kumasi Metropolis ☐ Outside: Kumasi Metropolis but in Ashanti Region ☐
   Others: Specify……………………………………………… ☐
7. Which of the deposit-taking products do you have at FASL?

Current Account ☐ Savings Account ☐ Fixed Deposit Account ☐

Ordinary Susu ☐ Golden-Plus Susu ☐ Premium Golden Susu ☐

8. Which of the Advance Granting Products do you take from FASL?

Allied Mpontu Loan Scheme ☐ Individual Loan (commercial) ☐

Consumer credit ☐ Travel Credit ☐

9. How did you get to know of any of these products? Through-----------

Staff ☐ Media (Advertisement) ☐ Fellow Customers ☐

Others: Specify-- ☐

AGE OF FASL MICROFINANCE SCHEME

11. When did you join FASL Microfinance scheme?

Between January 2002 and December ☐

Between January 2005 and December 2006 ☐ From January 2007 to Date ☐

Before January 2002. ☐

12. When did you take your first loan?

Before January 2002 ☐ Between January 2002 and December 2004 ☐

Between January 2005 and December 2006 ☐ From January 2007 to Date ☐

13. How many times have you taken this type of loan?

First time ☐ Second time ☐ Third time ☐ Fourth time ☐

More than five times ☐

14. In which month did you take your present loan? ....

LOAN SIZE

15. How much did you take from FASL as your first loan?

Less than GH¢500.00 ☐ Between GH¢501.00 and GH¢1000.00 ☐

Between GH¢1001.00 and GH¢1500 ☐ Between GH¢1501.00 and GH¢2000.00 ☐

Above GH¢2000.00 ☐

16. How much have you taken as your present loan?

Less than GH¢500.00 ☐ Between GH¢501.00 and GH¢1000.00 ☐

Between GH¢1001.00 and GH¢1500.0 ☐ Between GH¢1501 and GH¢2000.00 ☐

Above GH¢2000.00 ☐

17. How many months have you been given to repay your present loan?

Six (6) months ☐ Eight (8) months ☐ Ten (10) months ☐

Twelve (12) months ☐

18. Which instalments are you using to repay your present loan?

Weekly ☐ Bi-weekly ☐ Monthly ☐

Any other: Specify--- ☐

DELINQUUENCY ISSUES

19. Which business sector do you belong to?

Production ☐ Construction ☐ Trade ☐ Service ☐

Others: Specify...

20. i) Have you ever changed your business after taking this loan?

Yes ☐ No ☐

ii) If yes, why?

A. Previous business was unprofitable ☐

B. Influence from friends ☐

C .Others:
Specify.. ☐

21. i) Did the change in business help you to repay the loan as scheduled?

Yes ☐ No ☐

ii) If no, what happened?

Defrauded ☐ Goods were seized by customs ☐

Customers did not patronize the goods ☐
Others: Specify...

27. i) Are your payments regular? Yes ☐ No ☐

ii) If no, how often do you make late payments?

Weekly ☐ Bi-weekly ☐ Monthly ☐

Any other: Specify-- ☐

SOCIAL TIES

28. Do you get help from your guarantor or group members when you need it?

Yes ☐ No ☐

29. How often do you discuss your loan contract with guarantor(s) or group members?

Weekly ☐ Bi-weekly ☐ Monthly ☐

Any other: Specify-- ☐

30. How often do you receive advice or suggestions from guarantor(s) or group members about your business?

Weekly ☐ Bi-weekly ☐ Monthly ☐

Any other: Specify-- ☐

31. How do you relate your guarantor(s) or group members?

Business partner(s) ☐ Family member(s) ☐ Church member(s) ☐

Others: Specify...

INTEREST RATE

32. What is the interest rate on your current loan? ....

Would you prefer to borrow more at this interest rate?

Yes ☐ No ☐

33. . At what interest rate do you prefer to borrow?

0% to 9% ☐ 10% to 19% ☐ 20% to 29% ☐ 30% to 39% ☐

More than 40% ☐

LOAN PROCESS

30. How long did you operate your account before applying for the loan?

0 – 8 weeks ☐ 9- 12 weeks ☐ After 12 weeks ☐

31. When you applied for a loan at FASL, how many days did it take before the loan was disbursed into your account?

Less than three days ☐ Less than seven days ☐ Less than fourteen days ☐

More than fourteen days ☐

32. Are you satisfied with the loan process of FASL?

Yes ☐ No ☐

33. For the past eight months has any staff from FASL visited you for business advice?

Yes ☐ No ☐

34. If yes, how often?

Weekly ☐ Bi-weekly ☐ monthly ☐

Any other: Specify-- ☐

OUTSIDE CREDIT OPTIONS

35. Apart from FASL, do you receive any financial assistance from other credit sources?

Yes ☐ No ☐

36. If yes, which of the other credit sources do you have access to?

Universal Banking institutions ☐ Non-Banking institutions ☐

Individuals ☐

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TICK WHERE APPROPRIATE. THANK YOU

QUESTIONNAIRE FOR FASL STAFF

1. What is your rank at the credit department?

Customer intermediary ☐ Clerk ☐ Loan Officer ☐
Manager ☐ Senior Manager ☐

2. For how long have you worked at the credit department?

Less than two years ☐ between two years and five years ☐ Over five years ☐

3. What is the total number of borrowers within your portfolio?

Less than 250 clients ☐ above 250 clients ☐

4. What is your current outstanding loan balance? ……………………………

5. What is your current loan risk amount? ……………………………………

5. What has been your loan recovery rate for the past six months?

Year	January	February	March	April	May	June
Percentage						

6. Have you ever attended a training course externally or internally on credit administration?

Yes ☐ No ☐

7. How long does it take a loan officer to disburse a loan to client when an application for a loan is submitted?

Less than 5 days ☐ More than 5 days ☐

8. How many clients receive loans from you within one week? ……………………

9. How much loan amount are you able to disburse within one week? ....

10. What is your current total loan amount in arrears? ....

11. How many clients within your loan portfolio still owe? ....

12. What problem(s) do you face in credit delivery? ....
....
....
....
....
....