KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

INSTITUTE OF DISTANCE LEARNING

THE SOCIO-ECONOMIC IMPACT OF KUDI NKOSUO CREDIT OF GHANA COMMERCIAL BANK LIMITED ON SELECTED COMMUNITIES IN THE VOLTA REGION

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COMMONWEALTH EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

By

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CERTIFICATION

I hereby declare that this submission is my own work towards the Master of Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

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ABSTRACT

The informal sector of the business environment comprises the non-salaried private men and women who set them-selves up in small businesses. According to a report on Global Aging issued in 2008, members in the informal sector formed about 80% of the working population in Ghana. The informal sector contributes several ways towards economic growth. However, they are not considered for main stream credit by formal banks for lack of steady business, lack of Collateral and historical Financial Data for reference. They, therefore, depend heavily on Micro credit (the extension of small loans to those in the informal sector to spur entrepreneur) by informal financial institutions. Realizing the immense contributions of Microcredit to the informal sector, the United Nations (A/52/573) declared year 2005 as the year of micro credit as a way of encouraging all formal financial institutions to give the informal sector as much attention as they give to the formal sector and bring them into the main stream credit. For this and other implied reasons of increasing customer base and income generation, Ghana Commercial Bank Limited introduced Kudi Nkosuo loans in 2002. The problem here is whether the Kudi Nkosuo loans is a way of bringing the informal sector into the main stream finance industry and whether it is meeting, at competitive cost, the credit needs of those in the informal sector. Literature was reviewed and primary data were also collected using Interviews and Questionnaires. Quota Sampling Method was used to get equal representatives from each of the five selected communities to complete the questionnaires which were analyzed. In conclusion, it can be said that the Socio-Economic impact of the product in the selected communities is very low. To achieve greater impact more promotion is required.

TABLE OF CONTENTS

LIST OF TABLES

Page

LIST OF FIGURES

Page

LIST OF ABBREVIATIONS

CGAP	The Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
OECD	Organization of Economic Cooperation and Development
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Micro Credit is the provision of small loans for unsalaried borrowers with little or no collateral security (Consultative Group to Assist the Poorest, 2010). In other words, it is the extension of very small loans (microloans) to those in the informal sector to spur entrepreneur. The informal sector of the business environment comprises the unregistered small-scale businessmen and women, drivers, petty traders, artisans, hawkers, shoemakers, fitting mechanics and repairers. They are the non-salaried private men and women who have built personal capital for years to set them-selves up in small businesses. According to a report on Global Aging issued in 2008, members in the informal sector formed about 80% of the working population in Ghana.

These small businesses in the informal sector contribute several ways towards economic growth. Firstly, there is income generation. Secondary, they help the individuals become self-reliant as they rely on part of the profits they make to meet personal basic needs without relying on other family members for help. Thirdly, by engaging in economically productive activities, those who, hitherto, were classified as poor are able to exit poverty.

However, majority of the formal banking institutions are not willing to grant credit facilities to the informal sector due to the fact that these businesses are not steady. Sometimes the levels of activities go down drastically to the verge of collapsing and get resuscitated again. This affects their incomes generation. They do not keep records of all their activities and, therefore, no financial statements for assessment. As a result they are likely to have high default rate. Their inability to access main stream credit from formal banks has been their major problem. This has led to their exposure to certain local money lenders, shop keepers or informal financial institutions like the credit unions and consumer credit unions which charge very high interest rates. For instance, according to Rural Finance Access Survey conducted in 2003 (Basu Priya, 2006), around 44 percent of the households surveyed admitted having borrowed informally. The interest rates charged on these informal loans averaged 48 percent.

It is against this background that the United Nations have taken the fore-front in the campaign for the awareness creation of the need for the formal banking institutions to recognize the potentials of the informal sector and bring them into the main stream finance industry. The United Nations declared year 2005 as the year of micro credit. The aim was to encourage all formal financial institutions to bring the informal sector into the main stream finance industry (UN Secretary General's Report 1997). They advocate that this informal sector be given as much attention as the formal sector and bring them into the main stream credit and provide other services such as business management advices, training, business development advices, cash management advices, and investment advice to enable them gain some skills and grow their businesses.

It is in response to the United Nations' call for the recognition of the potentials of the informal sector as a tool for socio-economic development and for other implied reasons of increasing customer base and more income generation that Ghana Commercial bank Ltd has adopted and repackaged the local "susu" scheme as Kudi Nkosuo for the informal sector.

1.2 The Research Problem

Micro credit, since its inception, has been the major source of credit for businesses in the informal sector which has been neglected by the formal banking institutions due mainly to lack of collateral securities for credit facilities. Micro credit has helped a lot of people out of poverty.

Kudi Nkosuo is also a form of micro credit product which has been introduced to the public by a formal banking institution, Ghana Commercial Bank Ltd. The study is to help determine whether the product is living up to expectation just like the established micro credit product like the Grameen Credit by way of bringing the informal sector into the main stream finance industry and whether it is reliably meeting at competitive cost, the credit needs of those in the informal sector.

1.3 The Objectives of the Study.

The general objective of the study is to examine the socio-economic effect of the Kudi Nkosuo product on its customers.

The following are the specific objectives of the study:

i. To assess public perception about the product and its operations;

ii. To determine the extent to which it is helping the communities cultivate the habit of savings for business development as compared to other products;

iii. To ascertain whether it is meeting the intended objective of bringing the informal sector into the main stream finance industry; and

iv. To determine whether the credit facilities are adequate to address their credit needs to enable them grow their businesses.

1.4 The Research Question

These are the questions the researcher seeks answers for, to enable the above stated objectives to be achieved. The following are the research questions to be answered:

i. How do the public compare the product with similar products?

ii. What is the general level of patronage or acceptability by the public?

iii. What other benefit, apart from credit, does it promise the general public who patronize it?

iv. How is the credit helping them grow their businesses?

v. Is the credit adequate to meet their credit needs?

vi. How cheaper and accessible is the product as compared to others?

1.5 Significance of the Study

The work is expected to be a rich source of information for the various stake holders including Ghana Commercial Bank Ltd, the customers, the academia and the society at large. For Ghana Commercial Bank Ltd, the findings and the suggestions will go a long way to help them iron out the weaknesses and improve upon the product for maximum patronage and increase their incomes. As the weaknesses are identified and adequately addressed and suggestions for improvement adhered to the resultant benefits in the form of improved and satisfactory services will to the customers. With respect to the academia, it will be a rich source of reference for future researchers and even serves as the basis for further research work. The overall resultant benefits goes to the society. The bank will enjoy maximum patronage for more income and higher tax payment for societal use. Customers' level of productivity increases for more incomes to meet domestic and societal financial needs, and a point of reference for further research work.

1.6 The Scope and Limitations of the Study

The work looks at the socio-economic impact of Kudi Nkosuo credit of Ghana Commercial Bank ltd on selected communities in the Volta Region. The selected communities are areas where branches of Ghana Commercial Bank Limited are located and include Sogakope, Akatsi, Abor, Aflao and Dzodze. Kudi Loan is a form of Microcredit, and as such, the study delved into Microcredit.

However, due to time constraint and cost there were other related areas which are of great importance but could not be investigated. It is the researcher's wish that other researchers will focus attention on these areas in future. These areas include:

a. The negative effects of over dependence on Micro credit.
b. The negative effects of the high interest rate on loans by the local or informal money lenders.
c. The implications of lack of standardization of the operations of Micro Finance institutions.

1.7 The Organization of the Study

The whole study is organized into five chapters:

Chapter One is for the Introduction of the topic. Other things talked about are the Background, the Research Problem, the Objectives of the study, the Research Question, the Methodology, the Significance of the study, the Scope and the limitations of the study.

Chapter Two talks about Literature Review. Secondary information is gathered for the study. Books, Trade Journals, Magazines and the Internet will be reviewed for information for the study.

Chapter Three is about the Methodology for the study. Detail explanation is given as to how the needed information is gathered for the study.

Chapter Four is for Data Analysis. The Data gathered are analyzed and presented with diagrams to communicate information to interested parties.

Chapter Five is also for Summary, Conclusion and Recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A number of literatures related to the problem under investigation were reviewed. These related materials included Trade Journals, Books and Magazines written by both local and international organizations and individuals. The Internet was also combed for related information about the problem. These materials were obtained from the public tertiary Institutions and Libraries. The objective of reviewing literature was to look for what was already known about the problem under investigation, so that the aspects of the problem which had not been made known to the interested parties could also be established. Since Kudi Nkosuo credit is a form of Micro Credit, attention was focused more on Microcredit or Micro Finance. The development of Micro credit was looked at, paying tribute to the authority that started it. The Clientele of Micro credit, the repayment strategies used by organizations engaged in Micro credit programs and some impacts of Microcredit were also looked at. The results of the literature review have been paraphrased under the following headings:

2.2 Developments in Micro Credit

The Grameen credit happens to be the originator of microcredit for which its founder Muhammad Yunus was awarded the Nobel Peace Prize in 2006. Since its' inception in 1976 to this day whenever one uses the word "microcredit" one actually has in mind the Grameen type of microcredit or Grameen Credit. The distinguishing features of Grameen credit are very important because they display the general convergence to some basic features on the basis of which other microcredit programs introduce themselves as Grameen replication programs or Grameen type programs (Muhammad Yunus, 1998). The general features of the Grameen credit are:

i. Its mission is to help the poor families to overcome poverty. It is targeted at those in the informal sector, particularly the women. The credit facilities are invested in profitable businesses. This enables them to use part of the profits to meet their basic financial needs.

ii. The most distinctive feature of Grameen credit is that, it is not based on any collateral or legally enforceable contracts. It is based on "trust", not on legal procedures and system.

iii. It is offered for creating self-employment for income-generating activities and housing for the informal sector, as opposed to consumption. The credits are not for immediate consumption by beneficiaries. They are for use in profitable businesses to generate more income.

iv. It was initiated as a challenge to the conventional banking which rejected those in the informal sector by classifying them as "not creditworthy". As a result it rejected the basic methodology of the conventional banking and created its own methodology.

v. It provides service at the door-step of those in the informal sector based on the principle that the people should not go to the bank, bank should go to the people. The bank has trained agents who go round to provide banking services to the customers.

Grameen brought credit to those in the informal sector including women, the illiterate and the people who pleaded that they did not know how to invest money and earn an income. Grameen created a methodology and an institution around the financial needs of these people and created access to credit on reasonable terms enabling them to build on their existing skill to earn a better income in each cycle of loans. The Grameen Bank of Bangladesh, the most prominent of the successes, now reaches over 2 million people, with cumulative lending of about $2.1 billion (Muhammad Yunus, 1998). Similar successful examples are known in Latin America (e.g., Banco Solidario in Bolivia), less so in Africa (the Kenya Rural Enterprise Program is a good example). Progress has also been recorded in several transition economies, mixed in some cases. Such institutions have not only achieved a degree of success, but they have also managed to attract donor support and press attention. These schemes are characterized by relatively small loans, a few hundred dollars at most. The repayment period is relatively short, about a year or so. Women are a major beneficiary of their activities, and the destination of the funds primarily includes agriculture, distribution, trading, small craft and processing industries.

The administrative structure is generally light and the entire process is participatory in nature. The impact of microcredit lending varies widely between rural areas and urban areas. Various institutions are involved in the delivery of microfinance services. They include formal commercial banks, rural banks, cooperative institutions, credit unions and non-governmental organizations. Their methods of doing business range from Grameen Bank-style solidarity groups and institutions dealing with individual clients to self-managed self-help groups (Muhammad Yunus, 1998). Reports indicate that some institutions have gone beyond credit to offer insurance and other financial services.

There is one key ingredient that can put rural communities on a path to development: credit. Without being a panacea, credit can break the vicious circle of impoverishment and be a bridge to the mainstream monetized economy. With credit, a new world of possibilities opens up for the rural farmer: he or she can buy new seeds, fertilizer, buy some of the neighbors' products for resale or processing, rent a small table to sell produce or ship it to a wholesaler, and at last obtain monetary income. The profit can serve to further diversify production or begin new micro businesses like basket weaving and crafts. Obviously, profits also serve to support other key development objectives like health, education and empowerment of women. The advantage of credit over many other private sector development interventions is that instead of providing training, technical assistance or technology transfers, it gives the farmer currency and, therefore, the option to choose which of those additional inputs he or she chooses to invest in to maximize income generation.

According to the report of the United Nations' Secretary General on the role of microcredit in poverty eradication, the Secretary-General was requested to report to the General Assembly on the subject of microcredit (United Nations Secretary General's Report, 1997). In the broader context of the international fight against poverty, the paper highlighted the strengths and weaknesses of the micro lending approach, from which some conclusions about the future course of action were drawn. The report, as requested by the General Assembly, provided information on United Nations' funds, Programs and Agencies and their actions especially in the field. The report had it that since the World Summit for Social Development in 1995, the priority given to poverty eradication has grown. As stated in the previous report of the Secretary-General on the eradication of poverty (A/52/573), it is now broadly accepted that robust economic growth that is labor-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor, now estimated at 1.3 billion people, (United Nations report A/52/573), are a winning combination in the fight against poverty. Several factors have led to increased interest in microcredit in promoting growth with greater equity. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. In addition, the value of the role of non-governmental organizations in development is receiving more attention. It is in that context that microcredit has recently assumed a certain degree of prominence. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities. Currently, there are estimated to be about 3,000 (World Summit for Social Development, A/52/573) microfinance institutions in developing countries. These institutions also help create deeper and more widespread financial markets in those countries.

One main characteristic of Micro credit programs is that, the informal and small-scale lending arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-rounds", "esusus" etc.). They provide the rural population with access to savings within the local area and with a certain cushion against economic fluctuations, and they encourage a cooperative and community feeling. The groups formed provide joint collateral and serve as instruments for spreading valuable information that is useful for economic and social progress. All economies rely upon the financial intermediary function to transfer resources from savers to investors. But in many developing countries, commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The informal sector would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs that would be disproportionate to the amount of lending.

A study by the International Fund for Agricultural Development (IFAD) has confirmed that complicated loan procedures and paperwork, combined with a lack of accounting experience, limit the informal sector's access to formal sources of credit. Other reports cite the fact that commercial lenders in rural areas prefer to deal mainly with large-scale farmers and the absence of commercial banks in Micro credit programs has led to non-conventional forms of lending. The recent prominence given to microcredit owes much to the success of a relatively few microcredit programs and their increasing scale. The overall portfolio of the World Bank, for example, is only $218 million (United Nations report on the Role of Micro credit in eradication of Poverty, A/52/573). In recent international meetings, it has been stated that a target to reach 100 million families by the year 2005 would require an additional annual outlay of about $2.5 billion. This should be compared to the total gross domestic product (GDP) of all developing countries, which is now about $6 trillion. A certain sense of proportion regarding microcredit would seem to be in order.

Two approaches have been advocated on the role of credit in poverty reduction. While supporters of the income-generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities to increase their revenues, proponents of the so-called new minimalist approach argue that credit program would still be helping the poor fight poverty by giving credit to any poor person who is able to repay a loan without dictating to that person how and on what the loan should be used. Some studies have pointed out that the problem of the non-productive use of credit, as advocated by the minimalist approach, lies in the fact that by consuming rather than investing their loans, the actions of such borrowers, if imitated by other poor people, could produce a negative impact on the future growth of microcredit.

2.2.1. Innovations in Micro Credit Programs.

Over the past decade, microfinance institutions have adopted innovative ways of providing credit and savings services to the entrepreneurial poor and several microfinance institutions have succeeded in reaching most of those in the informal sector by devising certain innovative strategies (CGAP 2010). These innovations include the provision of small loans to poor people, especially in rural areas, at full-cost interest rates, without collateral, that are repayable in frequent installments. Borrowers are organized into groups, which reduces the risk of default.

There are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the poor. Above all, many microcredit programs have targeted one of the most vulnerable groups in society, women, who live in households that own little or no assets. By providing opportunities for self-employment, many studies have concluded that these programs have significantly increased women's security, autonomy, self-confidence and status within the household. Moreover, there is an introduction of new techniques to microcredit (CGAP, 2010). With the new techniques, the microcredit approach has tried to avoid the pitfalls of an earlier generation of targeted development lending. The approach focuses on fostering better repayment discipline and charging interest rates that cover the costs of credit delivery, both of which support development of sustainable institutions that can continue to expand their services in the future.

2.3 Clientele of Micro Credit Schemes

Typical Micro Credit clients are those in the informal sector and or low-income people that do not have access to other formal financial institutions. Microfinance clients are usually self-employed, household-based entrepreneurs. Their diverse "microenterprises" include small retail shops, street vending, artisanal manufacture and service provision. In rural areas, micro entrepreneurs often have small income-generating activities such as food processing and trade; and some of them are farmers. Most microfinance clients fall near the poverty line, both above and below (CGAP, 2010). They believe that households in the poorest majority of the population, including the destitute, are not traditional microcredit clients because they lack stable cash flows to repay loans.

Most clients below the poverty line are in the upper half of the poor. It is clear, however, that some micro credit institutions do serve clients who are poor but actually engaged in some sort of income generating activities. Women often comprise the majority of clients. Over the past decade, a few micro finance institutions have started developing a range of products to meet the needs of other clients, including pensioners and salaried workers (CGAP, 2010).

Although little is known about the universe of potential clients, the number of households without effective access to financial services is enormous. Most microcredit borrowers have microenterprises or unsalaried and informal income-generating activities. However, microloans may not predominantly be used to start or finance microenterprises. Scattered research (Bossoutrot Sylvick, 2005) suggests that only half or less of loan proceeds are used for business purposes. The remainder supports a wide range of household cash management needs, including stabilizing consumption and spreading out large, lumpy cash needs like education fees, medical expenses, or lifecycle events such as weddings and funerals.

2.4 Measuring Impact of Micro Credit

A new wave of randomized trial studies is now in process, which should yield a more definitive picture (Helms Brigit, 2006). Even so, there is a strong indication from borrowers that microcredit improves their lives. The impact of microcredit has been studied more than the impact of other forms of microfinance. Microcredit can provide a range of benefits that poor households highly value including long-term increases in income and consumption.

Access to credit helps the poor to smooth cash flows and avoid periods where access to food, clothing, shelter, or education is lost. Credit can make it easier to manage shocks like sickness of a wage earner, theft, or natural disasters. The poor use credit to build assets such as buying land, which gives them future security. Women participants in microcredit programs often experience important self-empowerment (CGAP, 2010). They faithfully repay their loans even when the only compelling reason is to ensure continued access to the service in the future.

Since 1988, Catholic Relief Services' microfinance program has been reaching the world's poorest communities with access to financial services that are sustainable over time (Catholic Relief Services, 1998). These microfinance activities are deeply rooted in Catholic Social Teaching, which promotes the sacredness and dignity of the human person. Catholic Relief Services' microfinance program is committed to serving the very poor, especially women and vulnerable populations in remote rural communities Their programs target the self-employed poor who have little or no access to formal credit or savings services. Studies indicate that women are more likely to use their loans and profits to benefit their families by investing in their businesses and using additional income to meet household needs such as purchasing more and better quality food, improving family housing and health care, paying children's school fees, and saving for emergencies. Ironically, women are often the poorest members of their communities and control the fewest resources, even in societies where small businesses are traditionally the women's domain. Therefore, Catholic Relief Services' microfinance programs are designed to strategically target women in an effort to uplift entire families and communities.

Microfinance arose in the 1980s as a response to doubts and research about state delivery of subsidized credit to the informal sector of the economy. Since the 1980s the field of microfinance has grown sustainably (Ledgerwood Joana, 1999). Donors actively support and encourage microfinance activities, focusing on micro finance institutions that are committed to achieving substantial outreach and financial sustainability. Micro finance is growing for several reasons:

i. The promise of reaching the poor in income generating activities. Microcredit activities can support income generation for enterprises operated by the low-income households.
ii. The promise of financial sustainability. Micro credit activities can help to build financially self-sufficient and subsidy free locally managed institutions.
iii. The potential to build on traditional system. Micro credit activities sometimes mimic traditional system (such as rotating savings and credit associations). They provide the same services in similar ways, but with greater flexibility, at more affordable prices to microenterprises and on a more sustainable basis.

This can make micro finance services more attractive to a large number of low-income customers.

iv. The contribution of micro finance activities towards strengthening and expanding existing formal financial systems. Micro finance activities can strengthen existing formal financial institutions, such as Savings and Loans Corporations, Credit Unions' Networks, Commercial Banks and even state-run financial institutions by expanding their markets for both savings and credit and potentially their profitability.

v. The availability of better financial products as a result of experimentation and innovations. The innovations that have shown the most promise are solving the problems of lack of collateral by using group-based and character based approaches. Solving problems of repayment discipline through high frequency of repayment or collections, the use of social and peer pressure and the promise of high repayment loans. Solving the problem of transaction cost by moving some of these costs down to the group level and by increasing outreach, designing staff incentives to achieve greater outreach and high loan repayment and providing some services that meet the needs of small savers.

vi. The growing number of success stories. There is an increasing number of well doing and innovative success stories with micro financing. This is in stark contrast to the records of the state-run specialized financial institutions, which have received large amount of funding over the past few decades but have failed in terms of both financial sustainability and outreach to the poor.

Today micro finance or micro credit institutions are reaching out to a large number of borrowers and savers. The importance of micro credit for the self-employed and for small entrepreneurs is also increasingly recognized. For instance, according to the recent global report (Kumar Anjali, 2005) estimated 98% of Brazil's 4.1million micro and small scale enterprises account for 45% of formal employment and more than 60% of urban jobs. Directly or indirectly they provide the primary source of income to almost 60m people and generate nearly 20% of GDP. Since June 2003, the government has introduced new measures to support micro finance.

For a financial system to be truly inclusive, it should meet the needs of everyone who can fruitfully use financial services including the poor. Poor people in developing countries, like everyone else, need access to a wide range of financial services that are convenient, flexible and reasonably priced. This simple observation has transformed the thinking and practice of micro credit institutions over the past decade. In the past, two features characterized microfinance: (1) A focus on microenterprise credit (small loans to meet working capital needs of entrepreneurs); and (2) An approach to delivering credit that was largely supply driven (Marguerite Robinson, 2002). As a result, a fairly narrow range of credit services attracted an equally narrow range of clients. Today, there is a growing recognition that not all poor people are necessarily entrepreneurs, but all people do need and use a variety of financial services. The challenge is to understand and meet this demand among increasingly remote populations.

Recognizing the diversity of people who are excluded from financial services has enormous implications for building inclusive financial systems. For instance, farmers may need credit for agricultural inputs but also a safe place to save the proceeds of the harvest to use when lean times arise. Typically microfinance customers are self-employed, often home-based entrepreneurs. In rural areas, they are small farmers and others engaged in small income-generating activities, such as food processing and petty trade. In urban areas, the population reached is often more diverse and include not only street vendors but also shopkeepers, service providers, artisans, and so on. Microenterprise credit (credit to meet the running cost of small businesses) is the principle product offered by most specialized Microcredit institutions. To meet their various requirements, customers find themselves adapting microcredit to many uses.

2.5 Micro Credit Repayment Strategies

The microfinance 'revolution' has been marked by the introduction of credit methodologies that prove that poor are bankable (Robinson Marguerites, 2002). They can take out loans and pay them back. In fact, microcredit customers often repay their loans more reliably than customers in the commercial banking sector. They are also willing and able to pay the typically high interest rates that are necessary for providers to cover the (relatively high) cost of offering very small loans. Traditionally, the core of successful microcredit is the promise of permanent access to future credit that motivates customers to repay to ensure their access to this service.

Another key success factor is use of collateral substitutes to reduce risk. Poor people do not have collateral, and this is the characteristic that primarily excludes them from formal credit sources. To address this, some microcredit pioneers introduced group-based joint liability schemes, in which individuals in a group guarantee each other's loans. Other programs rely on local knowledge through loans officers 'on the street' and non-traditional forms of collateral, such as animals or refrigerators, rather than group schemes. Another critical element of successful microcredit is ensuring that customers households have sufficient cash flow today (rather than projected cash flow assumed to emerge from the financed activity) to cover their interest and principal repayments.

One method for making sure borrowers can service loans is to collect small and very frequent repayment installments that can be met comfortably from ordinary household cash flow (Robinson Marguerittes, 2002). However, frequent, regular loan repayments have drawbacks, especially when serving the very poor. While this feature helps pay back loans a little bit at a time, it also requires a steady flow of income. Market vendors with rapid turnover can cope with frequent repayments whereas farm families highly depended on the vicissitudes of planting and harvesting cycles might find them more difficult to manage. Regular loan repayments also increase the cost of doing business for customers, as they spend time in regular meetings with their groups or loan officers. In recognition of this challenge, Grameen Bank, the pioneer of regular weekly loan repayments, has moved to making repayment terms and schedules more flexible.

The Canadian International Development Agency (CIDA) has been urged to make microcredit a pillar of its new Private Sector Development Strategy, and to make sure sufficient funds are provided to demonstrably reach the very poor in rural areas and ensure their level of poverty diminishes. Microcredit plays an important role in Poverty Alleviation. Micro finance is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and other financial institutions. Financial services provided by Micro Finance institutions (MFIs) generally include savings and credit. According to a global report, currently estimated 67.61 million people around the world have access to micro financing. This number is expected to grow steadily in the future since the target is to reach 100 million poor people with credit by the end of the year 2005.

2.6 The Future of Micro Credit

<u>Increased Recognition and Support by Donors</u>: In the past few decades, savings-led microcredit has gained recognition as an effective way to bring very poor families low-cost financial assistance. For instance, over the past two decades, International Fund for Agricultural Development (IFAD) has been providing financial aid, much of it through microcredit programs for the poorest of the rural poor in developing countries (UN Report A/52/573). It firmly believes that the poor are "bankable". Its action plan is based on three fundamental propositions:

The first stems from the Fund's mandate to address rural poverty by recognizing the importance of microfinance as a key of empowerment tool in ensuring improvements in incomes and sustainable household food security among the world's poorest families, especially the women of those families. The second recognizes the fact that, while access to credit and savings facilities is crucial, it is usually not enough by itself to ensure the sustainable development of the rural poor, who also need links to an efficient distribution system for their productions, including viable roads to market places, access to appropriate technology, technical training, fair prices for inputs and a favorable regulatory climatic. Thirdly, rather than providing temporary services for the poor, the main objective of IFAD is to develop viable and financially sustainable rural financial systems, especially for the very poor living in remote areas in many developing countries.

Also in India, the National Bank for Agriculture and Rural Development (NABARD) finances more than 500 banks that on-lend funds to self-help group (Jason Cons and Kasia Paprocki, 2008). Self-help groups comprise twenty or fewer members, of whom the majority is women from the poorest families and tribes. Members save small amounts of money, as little as a few rupees a month in a group fund. Members may borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. As self-help groups prove capable of managing their funds well, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund. Groups generally pay interest rates that range from 30% to 70%. Nearly 1.4 million self help groups comprising approximately 20 million women now borrow from banks, which make the Indian self-help group-Bank Linkage Model the largest microcredit program in the world (Jason Carr and Kasia Paprocki, 2008). Similar programs are evolving in Africa and Southeast Asia with the assistance of organizations like Opportunity International and Catholic Relief Services.

Expansion of Scale and Scope of Operations: The microcredit era that began in the 1970s is gradually losing its momentum, to be replaced by a 'financial systems' approach (James Carr, 2005). While microcredit achieved a great deal, especially in urban and near-urban areas and with entrepreneurial families, its progress in delivering financial services in less densely populated rural areas has been slow.

The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing world today. It is also rooted in an increasing awareness of diversity of the financial service needs of the world's poorest people, and the diverse settings in which they live and work. Brigit Helms in her book 'Access for All: Building Inclusive Financial Systems', distinguishes between four general categories of microfinance providers, and argues for a pro-active strategy of engagement with all of them to help them achieve the goals of the microfinance movement (Brigit Helms, 2006). These four general categories include the following:

i. Informal financial service providers. These include moneylenders, pawnbrokers, savings collectors, money- guards, ROSCAs and input supply shops. Because they know each other well and live in the same community, they understand each other's financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money.

ii. Member-owned organizations. These include self-help groups, credit unions, and a variety of hybrid organizations like 'financial service associations'. Like their informal cousins, they are generally small and local, which means they have access to good knowledge about each others' financial circumstances and can offer convenience and flexibility. Since they are managed by poor people, their costs of operation are low. However, these providers may have little financial skill and can run into trouble when the economy turns down or their operations become too complex. Unless they are effectively regulated and supervised, they can be 'captured' by one or two influential leaders and the members can lose their money.

iii. NGOs. The Microcredit Summit Campaign counted 3,316 of these Micro Finance Institutions and NGOs lending to about 133 million clients by the end of 2006. Led by Grameen Bank and BRAC in Bangladesh, Prodem in Bolivia and FINCA International, headquartered in Washington, DC, these

NGOs have spread around the developing world in the past three decades; others, like the Gamelan Council, address larger regions. They have proven very innovative, pioneering banking techniques like solidarity lending, village banking and mobile banking that have overcome barriers to serving poor populations. However, with boards that don’t necessarily represent either their capital or their customers, their governance structures can be fragile, and they can become overly dependent on external donors.

iv. Formal financial institutions. In addition to commercial banks, these include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions. They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved reluctant to adopt social missions, and due to their high costs of operation, often cannot deliver services to poor or remote populations. The increasing use of alternative data in credit scoring, such as trade credit is increasing commercial banks' interest in microcredit.

With appropriate regulation and supervision, each of these institutional types can bring leverage to solving the microfinance problem (Brigit Helms, 2006). For example, efforts are being made to link self-help groups to commercial banks, to network member-owned organizations together to achieve economies of scale and scope, and to support efforts by commercial banks to 'down-scale' by integrating mobile banking and e-payment technologies into their extensive branch networks.

<u>Transformation in Microcredit Institutions</u>: Expansion in scales and scopes of operations of Micro Credit programs have led to the transformation of certain Micro

Credit Institutions into full-fledged formal banking and non-bank financial institutions. To increase their autonomy and access new financial sources capable of supporting their growth strategy, a number of the Micro credit institutions which have grown into Microfinance Institutions have obtained licenses to operate as banks or nonbank financial institutions. A typical example is BancoSol in Bolivia, which started as an NGO named Prodem in 1980s delivering Micro credit but later became a full-fledged bank in 1992 (Bossoutrot Sylvick, 2005). Also in the Philippines, for example, the Centre for Agriculture and Rural Development (CARD) was established as an NGO in 1986 delivering microcredit. It had less than 500 clients in the early 1990s but transformed in 1997 into a rural bank serving over 55,000 clients in various provinces. It is believed that as Micro Credit programs grow from one stage to another, more Micro Credit institutions are likely to transform into full-fledged banks.

2.7 Criticisms of Micro Credit

Even though Micro credit promises to be a good product, it is criticized on many grounds including the following:

i. Concerns often arise as to why microcredit interest rates are higher than the bank interest rates that wealthier people pay (CGAP, 2010). The issue is cost: the administrative cost of making tiny loans is much higher in percentage terms than the cost of making a large loan. For instance, it takes a lot less staff time to make a single loan of $100,000 than 1,000 loans of $100 each. Besides loan size, other factors can make microcredit more expensive to deliver. Credit decisions for borrowers who have neither collateral nor a salary cannot be based on automated scoring. These decisions require substantial intervention of a loan officer in judging the risk of each loan. Micro credit institutions may operate in areas that are remote or have low population density, making lending more expensive. This is often why traditional banks tend to stay away from such areas. If a micro credit institution wants to operate sustainably, it has to price its loans high enough to cover all its costs.

Although microcredit interest rates can be legitimately high, inefficient operations can make them higher than necessary. Local inflation and the bad debt expenses of the micro credit institutions also lead to high interest rates (Westover J. 2008). Muhammad Yunus has recently made much of this point, and in his latest book argues that microfinance institutions that charge more than 15% above their long-term operating costs should face penalties (Muhammad Yunus and Karl Weber, 2007).

ii. Vast majority of government micro credit programs do a poor job of delivering retail credit (CGAP, 2010). Such programs are usually subject to political influence, high default, continuing drain on national treasuries, and sometimes lending based more on the borrowers' influence than their actual qualifications. Among government programs reporting to international databases, only few of clients are being served sustainably. There are structural dynamics that make it hard for governments to deliver good retail credit. Sound credit administration requires screening out borrowers who are not likely to repay, charging interest rates high enough to cover costs, and responding vigorously to late payments. These requirements usually run counter to the practical incentives and imperatives of even the sincerest working politician.

As the microcredit market matures in a given country, administrative costs usually drop as managers learn from experience and in some cases because competition forces lower pricing and greater efficiency. There are several highly successful government micro finance institutions, such as Bank Rakyat Indonesia's microfinance department. The government-run micro finance institutions that deliver good microcredit tend to be insulated from politics, managed by technocrats, and strongly and explicitly focus on sustainability. It is important to remember that these incentive problems for government providers pertain more to credit than to other services. For instance, good government savings banks are considerably easier to find than good government retail loan programs.

iii. The success of the microcredit model has been judged disproportionately from a lender's perspective (repayment rates, financial viability) and not from that of the borrowers. For example, the Grameen Bank's high repayment rate does not reflect the number of women who are repeat borrowers that have become dependent on loans for household expenditures rather than capital investments. Studies of microcredit programs have found that women often act merely as collection agents for their husbands and sons, such that the men spend the money themselves while women are saddled with the credit risk (Goetz, A.M. and Gupta Sen 1995) As a result, borrowers are kept out of waged work and pushed into the informal economy.

iv. Many studies in recent years have shown that risks like sickness, natural disaster and over-indebtedness are a critical dimension of poverty and that very poor people rely heavily on informal savings to manage these risks

(Marguerite Robinson, 2002). It might be expected that micro credit institutions would provide safe, flexible savings services to this population, but with notable exceptions like Grameen, they have been very slow to do so. Some experts argue that most microcredit institutions are overly dependent on external capital. A study of microcredit institutions in Bolivia in 2003, for example, found that they were very slow to deliver quality Micro savings services because of easy access to cheaper forms of external capital (Hillary Miller, 2003) and that savings represent a small source of funds for microcredit institutions in most developing nations.

v. Because field officers are in a position of power locally and are judged on repayment rates as the primary metric of their success, they sometimes use coercive and even violent tactics to collect installments on the microcredit loans. Some loan recipients sink into a cycle of debt, using a microcredit loan from one organization to meet interest obligations from another (Gina Neff, 2009) Also, counter to the original intention of the microcredit system to empower women, one of the effects of an infusion of cash into local economies has been to increase dowries with women forced at times to take microcredit loans as the only means to pay these increased dowries for their daughters (Jason Cons and Kasia Paprocki, 2008).

vi. The role of donors has also been questioned. The Consultative Group to Assist the Poor (CGAP 2010) recently commented that "a large proportion of the money they spend is not effective, either because it gets hung up in unsuccessful and often complicated funding mechanisms (for example, a government apex facility), or it goes to partners that are not held accountable for performance. In some cases, poorly conceived programs have retarded the development of inclusive financial systems by distorting markets and displacing domestic commercial initiatives with cheap or free money." (Brigit Helms, 2006)

vii. There has also been criticism of micro lenders for not taking more responsibility for the working conditions of poor households, particularly when borrowers become quasi-wage laborers, selling crafts or agricultural produce through an organization controlled by the Micro Finance Institutions. The desire of Micro Finance Institutions to help their borrowers diversify and increase their incomes has sparked this type of relationship in several countries, most notably Bangladesh where hundreds of thousands of borrowers effectively work as wage laborers for the marketing subsidiaries of Grameen Bank or BRAC. Critics maintain that there are few, if any, rules or standards in these cases governing working hours, holidays, working conditions, safety or child labor, and few inspection regimes to correct abuses. (Farooque Chowdhury, 2007).

viii. Some studies show that there are limits to the use of credit as an instrument for poverty eradication, including difficulties in identifying the poor and targeting credit to reach the poorest of the informal sector. Added to this is the fact that many people, especially those in the informal sector, are usually not in a position to undertake any economic activity, partly because they lack business skills and even the motivation for business. Furthermore, it is not clear if the extent to which microcredit has spread, or can potentially spread, can make a major dent in global poverty.

In addition, the administrative structures governing these institutions are commonly either fragile or rudimentary, and often involve large transaction costs. A study by the Organization for Economic Cooperation and Development (OECD), for example, found that many specialized agricultural institutions were not designed to serve as financial intermediaries. The success of financial intermediation at any time depends significantly on how efficiently the transaction is completed. If the transaction costs, combined with high interest rates, require that the operation in question generate profit margins of the order of 30 to 50 per cent, it is not clear that this would be economically beneficial (U N Secretary General's report, 1997). It is not surprising that in many micro lending operations, trading activity - with quick turnover and large profit margins - dominates.

Furthermore, Microcredit programs have been stand-alone operations. In fact, lending to the poor can succeed if other services, such as training, information and access to land are equally provided. An Organization for Economic Corporation and Development (OECD) study, for example, emphasized that credit needs to be supplemented with access to land and appropriate technology. But this requires strong support from the public sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was devoted to the explanation of the ways and means the Population, the Sampling Universe and Sample Size were determined and how Primary and Secondary Data were gathered from the respondents for the study.

3.2 Research Design

This is a case study research. Case study research is an empirical inquiry that investigates a contemporary phenomenon within its real-life context (Robert Yin, 1984). One advantage of using case study research method is that its use of multiple data collection methods and analysis techniques provides the researcher with the opportunity to triangulate data in order to strengthen the research findings and conclusions. Another point is that it is effective for generalizing using the most rigorous tests, to which a scientific proposition can be subjected, such as Falsification Test. The researcher chose this design because the objectives of the study required the researcher to collect data about a product over a period of time, in addition to responses from a cross-section of the customers, for study. Why the researcher chose this Kudi Nkosuo product over other savings product was that it is a non-traditional product and the researcher wanted to determine how the bank is using it to bring the informal sector into the main stream finance industry.

3.3 The Catchment Area

The entire catchment area for the study comprised some areas of the Southern part of the Volta Region. The map of the Volta Region in figure 3.1 indicates the various districts under study.

Figure 3.1: The Map of the Volta Region

The Volta Region covers the area of 20,570 sq km (According to Ghanadistrict.com). It is made up of 18 districts. The total population being 1,635,421 (Ghanadistrict.com). The Southern part alone comprises 9 districts. However, the study is restricted to only five districts where branches of Ghana Commercial Bank Ltd are located so reliable data could be collected for the study.

The first is Sogakope (South Tongu District), which spreads over a land area of 820 sq km. (Ghanadistrict.com). The total population in the area is 87,866 (United Nations Educational Scientific and Cultural Organization report 1995). The economic activities of the people are mainly trading. The second is Akatsi, which also finds itself along the same line. It covers the area of 906,445 sq km (Ghanadistrict.com). The total population being 93,477 (2000 population census from Ghanadistrict.com). The economic activities of the area are mainly farming and trading. The next town along the line after Akatsi is Abor. The total population of Abor is 76,525 (Ghanadistrict.com). The town spreads over an area of 712 sq km (Ghanadistrict.com). The main economic activities are trading and farming. The forth is Aflao (Ketu South District), which is a border town. It is very close to Togo. The economic activities are mainly fishing and trading. It spreads over a land area of 1,130 sq km (Ghanadistrict.com). The population of the area is 237,201 (Ghanadistrict.com). It is along the coast. Dzodze (in Ketu North District), the last but not the least, is not in the coastal area, though, it is part of the Southern part of the Volta Region. The economic activity is trading and farming. The population size is about 98,512 (Ghanadistrict.com). It covers the area of about 845 sq km. These backgrounds, to some extent, give information about the nature of the informal sectors in the areas under study and show the use to which the Kudi Nkosuo credit are likely to be put.

3.4 The Population for the Study.

The population for the study comprised all the Kudi Nkosuo credit customers in all the five selected communities in the Southern part of the Volta Region. These five selected communities include the following:

- Sogakope
- Akatsi
- Abor
- Aflao
- Dzodze

There was a total number of 3,438 Kudi Nkosuo customers altogether from all the five areas under study 396 out of this number were beneficiaries of the Kudi Nkosuo credit. Since the total population for the study covered all these five areas, it was ensured that all the Kudi Nkosuo credit customers in each area formed 20% percentage of the total population for the study. As already indicated in the previous chapter, in each of the selected five communities consideration is given to only the informal sector which comprised the total number of small scale business men and women, drivers, petty traders, artisans, hawkers, shoemakers, cobblers, repairers etc who patronized the 'Kudi Nkosuo' credit facility. These customers were of different characteristics as far as sex, differences in the sizes of business, differences in the nature of business and capital requirements among others were concerned. These characteristics were vital for the study.

3.5 Sample Size

Dealing with such a population was very difficult and expensive as it was too large a number. The researcher decided to select a percentage of the population to represent the entire sampling universe. The Sample Size the researcher decided on for the study was one hundred (100), thus 25.25% of 396 (the total number of Kudi Nkosuo credit customers), with a twenty percent (20%) quota to each of the five sampling stratification. This implies that 20 respondents were involved in the study in each of the five selected communities.

3.6 Sampling Procedure

Non-randomized sampling techniques, precisely, Quota Sampling was used to get the sample size that represented the customers who actually patronized the Kudi Nkosuo product and who were beneficiaries of the credit facility. This was because the respondents were identifiable and well known to the bank. The customers were regular customers who have been enjoying the Kudi Nkosuo credit facility. The customers were first grouped into two; Kudi Nkosuo credit customers and non-Kudi Nkosuo credit customers. The Kudi credit customers were further broken into two; Male and Female. Each of these sex groups was then broken into two; High credit applicants and Low credit applicants. Where high credit applicants were those who applied for credits up to the maximum amount of GHS 2,000.00 that the bank was prepared to grant whilst low credit applicants were those who requested for amounts below a quarter of the maximum amount to be granted. Each of these two credit applicants were further grouped into two; Physical goods sellers and Service providers. Where physical goods sellers included those who sold physical goods like foodstuffs, cosmetics and kitchen utensils whist services providers included drivers, barbers, cobblers and hairdressers. Five out of these four sub-groups were carefully selected to represent the respondents for the study in each area.

3.7 Data Collection Tools

The primary data collection methods used were Interview and Questionnaire. A total number of 20 questionnaires were administered to the cross-section of the respondents in each area. These 20 respondents were carefully selected with the help of the Bank officials who were on the Kudi Nkosuo schedules, taking into account the above mentioned identified characteristics of the respondents. Those who could read and write were given the questionnaires to complete themselves, whilst the illiterate ones were assisted. All the bank officials who were schedule officers for the Kudi Nkosuo product were interviewed. In all five (5) persons, one from each branch was interviewed to collect information pertaining to the background and the operations of the Kudi Nkosuo credit. Secondary data were also gathered from official Bank documents obtained for the study. These documents included Kudi Nkosuo Manual and Kudi Nkosuo Monthly Returns. Other secondary information was also collected through literature review of other materials. These materials included Books, Magazines, and Journals. A lot of information on the Internet was also obtained for the study.

3.8 Data Analysis

The primary data collected from the respondents and the secondary data gathered from the official documents of GCB in the selected areas were analyzed and presented using statistical tools such as Tables and Charts. In all one hundred (100) questionnaires were gathered and edited to correct numerical errors, inconsistencies and omissions before the analysis. The analysis were in two forms; the first was done to study the general performance of the Kudi Nkosuo loan over the period of its operation and second analysis was also done to study the socio-economic impact of the Kudi Nkosuo loan on the selected communities.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

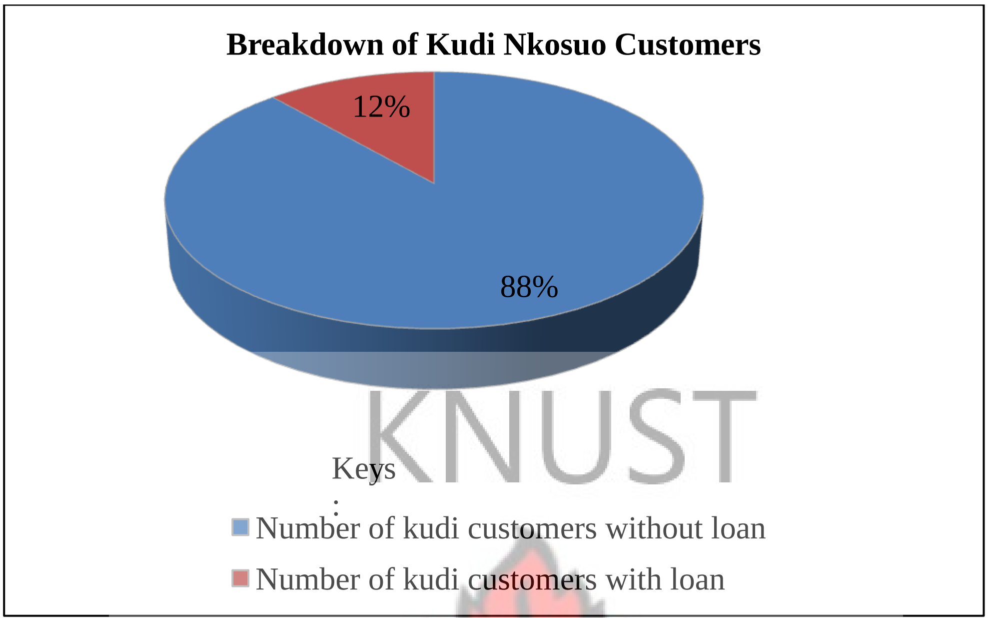
4.1 Introduction

In this chapter, the primary and secondary data gathered from the respondents and the branches of GCB in the selected areas were analyzed and presented using statistical tools such as Tables and Charts. After collecting the questionnaires, they were scrutinized and edited to correct numerical errors, inconsistencies and omissions. The analysis were done for two main reasons; firstly, to know the general performance of the Kudi Nkosuo credit over the period of its operation and secondary, to study the socio-economic impact of the Kudi Nkosuo credit on the selected Communities. The Kudi Nkosuo product was first introduced in 2002. Two years later the product collapsed due mainly to the bank's inability to manage the teething problems of the product. Such problems included inconsistencies in the Loans Agreement and lack of uniformity in its operations at branches. It was later re-packaged and re-introduced in 2008, and since then patronage has been increasing (Kudi Nkosuo Manual, 2008).

4.2 Overview of the Performance of Kudi Loans

The total number of Kudi Nkosuo accounts opened, in all the five areas under study, since the inception of the product in 2002 is 3,438. Out of this, 396 customers have been granted Kudi Nkosuo loans (GCB Kudi Nkosuo Monthly Returns). This is illustrated by a Pie Chart in figure 4.1 below.

Figure 4.1: Overview of the Performance of Kudi Nkosuo Loans.



Source: GCB Kudi Nkosuo Monthly Returns.

As indicated in the figure 4.1 above, out of the total number of 3,438 Kudi Nkosuo customers, 12% representing 396 customers are on Kudi loans and 88% representing 3,042 are not on loans. This shows that within the space of nine years, the various branches in the catchment area have granted loans to only one out of nine (1/9) customers who are operating Kudi Nkosuo accounts with the bank. Details as to how the various branches have fared over the years in terms of number of Kudi Nkosuo loans granted and their percentages are illustrated by a Table and a Bar Chart in Table 4.1 and figure 4.2 respectively below .

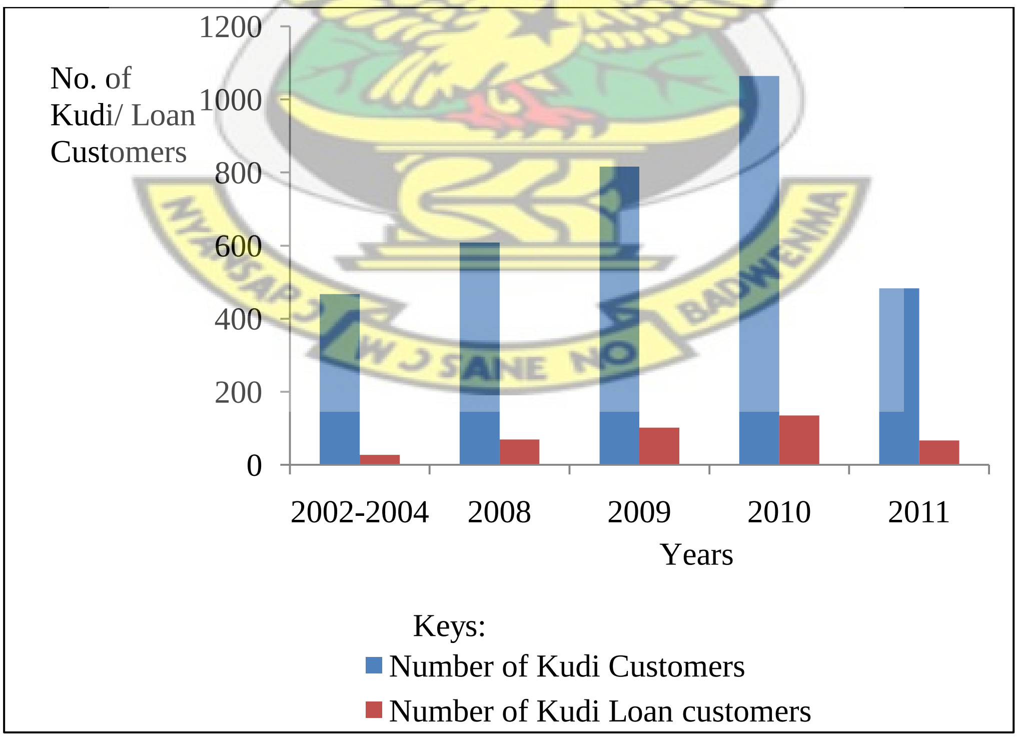
Table 4.1: Table Illustration of the Details of the Overview of the Performance of Kudi Nkosuo Loans within the Period 2002 to 2011.

Year	No. of Kudi A/C	No. of Kudi Loans	Percentage of Kudi Loans	Percentage Increase in No. of A/C	Percentage Increase in No. of Loans
2002/2004	467	27	5.78%		
2008	608	69	11.35%	30.19%	155.55%
2009	816	102	12.50%	34.21%	47.83%
2010	1,064	135	12.68%	30.39%	32.35%
Apr/ 2011	483	67	13.87%		
TOTAL	**3,438**	**396**	**11.52%**		

Source: GCB Kudi Nkosuo Monthly Returns

It can be seen from the table that, between 2002 and 2004, only 27 out of 467 customers were granted loans. This figure represents only 5.78%. The product collapsed in the middle of 2004 (GCB Internal Marketing Manual). In the middle of 2008, the product was re-introduced. Number of Kudi Accounts opened for the year was 608 showing an increase of 30.19% from the previous year of 467, whilst the number of Kudi loans granted out of 608 was only 69 or 11.35%. Even though number of customers granted loans showed an increase of 155.55% over the previous one, in relation to the number of accounts opened, the percentage (11.35%) is very low. In 2009, only 102 customers or 12.50% of customers (thus 816) who opened Kudi accounts were granted loans, even though this number showed a slight increase of 1.15% over the previous number. This is irrespective of the fact that number of accounts and loans increase by 34.21% and 47.83% respectively. In 2010, the percentage of customers granted loans out of number of accounts were static. Thus out of 1,064, 135 or 12.68% were granted loans, though the number of accounts opened and loans granted shot up by 30.39% and 32.35% respectively. Within four months into 2011, 483 Kudi accounts have been opened with only 67 or 13.87% of them granted Kudi loans. In all only 396 or 11.52% out of 3,438 customers were granted Kudi loans. Various reasons can be assigned to the remaining 3,042 customers, representing 88% who are not on loans; either they do not qualify for Kudi loan, or they are not interested in the loans, or they are not aware of any Kudi loans because it has not been preached to them. This information can further be presented by a Bar Chart in figure 4.2 below.

Figure 4.2: Bar Chart Illustration of the Overview of the Performance of Kudi Nkosuo Loans for the Period 2002 to April 2011.



Source: GCB Kudi Nkosuo Monthly Returns.

It can be seen that the number of Kudi loans is relatively very low, compared to the number who opens Kudi accounts or the inhabitants in the communities.

4.2.1. Overview at Branch levels

The breakdown of the figures above is studied to determine the trend of the growth of the product at branch levels over the period of its operation. The table below indicates the general performance of the Kudi Loans at Branch levels.

Table 4.2: Overview of Performance of Kudi Loans at Branch Levels over the Period 2002 to April, 2011

Area	**No. of Kudi A/C**	**No. of Kudi Loans**	**Percentage of Loans**
Sogakope	1,812	198	10.93%
Akatsi	192	36	18.75%
Abor	297	30	10.10%
Aflao	1,083	108	9.97%
Dzodze	54	24	44.44%
Total	**3,438**	**396**	**11.52%**

Source: GCB Kudi Nkosuo Monthly Returns

It can be seen that some of the branches have very low numbers in terms of the number of Kudi accounts opened and the number of Kudi Loans granted. Sogakope granted 198 or 10.93% out of 1,812 customers. Aflao on the other hand, also granted 108 customers or 9.97% out of 1,083 customers. However, the other three branches namely Akatsi, Abor and Dzodze performed poorly. Whereas Akatsi granted 36 out of 192 customers within the space of nine years in operation, Abor had 30 or 10.10% out of 297 customers. Dzodze also granted 24 customers out of 54 within the period of nine years. So what accounts for the low numbers in terms of accounts and the loans and how much does it impact on society?

4.3. Socio-Economic Impact of the Kudi Nkosuo Loans on the Communities.

Here the responses from the questionnaires and the interviews are analyzed in accordance with the specific objectives to see how much the Kudi Loans impact on the communities.

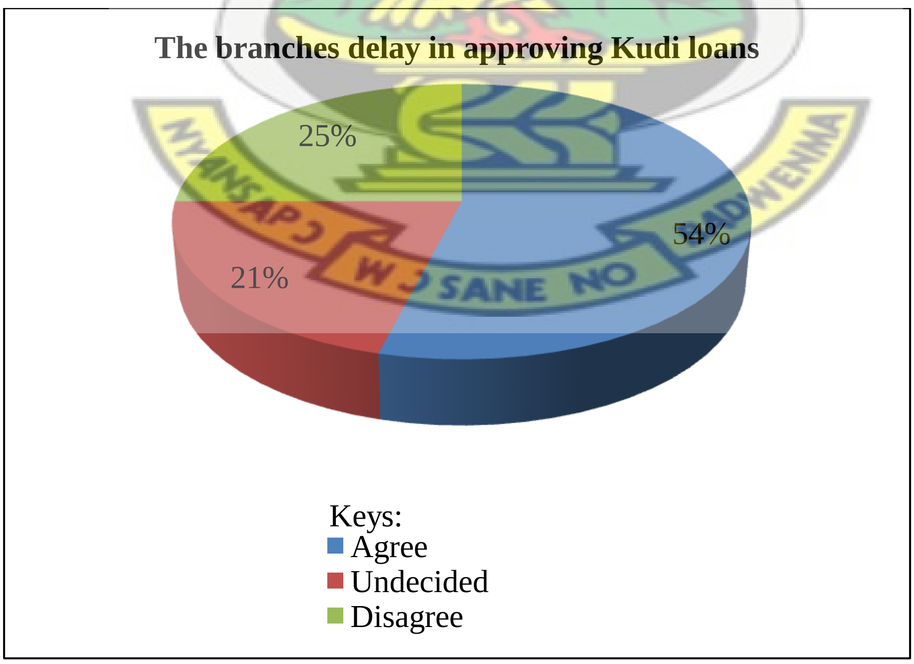
4.3.1. How the Credit Scheme Operates

Kudi Nkosuo is a hybrid of savings and credit product designed for the individual self-employed of all categories including the small scale business-men and women, drivers, petty traders, artisans, hawkers, shoemakers, fitting mechanics, repairers, etc. The Kudi Nkosuo Credit or Loan is a credit facility available to only Kudi Nkosuo contributors. The customer opens a Kudi Nkosuo account and decides to save at his or her own determinable frequency (thus daily, every-other-day, weekly, bi-monthly, or monthly). He or she also decides on how much to contribute. A Kudi Nkosuo schedule officer goes round to the customers for their contributions on daily basis just like the local 'susu' scheme. The customer can also come to the banking hall to make deposits or send someone to deposit on his behalf. The product gives the customer access to a Loan or credit facility for which it would have been difficult for such category of traders to access. The loan facility is a short term one where the customer is given 12 months to contribute at the same determinable frequency to repay. The customer should contribute consistently for a minimum period of six months to qualify for loan. Lien is put on the customer's six months contributions which serve as security for the loan. The loan amount is two times customer's six months contributions. But the maximum loan that a customer can enjoy currently is GHC 2,000 irrespective of the six months contribution. After successful repayment of the previous loan the customer can apply for a new loan.

4.3.2. Public Perception about the Product

All the hundred respondents (100%) strongly agreed that all Kudi customers who duly qualify and apply for the Kudi loans are granted. They can, therefore, trust that as and when they need the loans, ones they qualify and apply for it they would get the loans for the intended purpose. However, 54% were of the view that the banks delay in the disbursement of the loans, 21% sitting on the fence with 25% in disagreement. This affects the businesses of 59% of the customers with 31% in disagreement of the fact that delays affect their businesses and 10% undecided. This is illustrated by the Pie Charts in figure 4.3 below and 4.4 below.

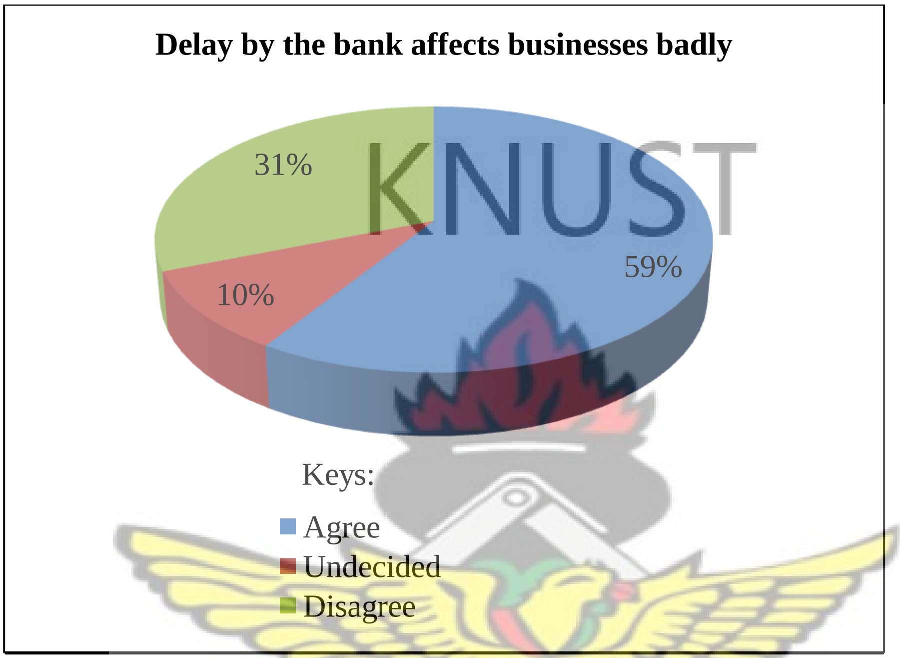
Figure 4.3: Bar Chart Illustration of the Delay by Branches in Approving Loans for Customers.



Source: Field Data

It can be seen that majority of the customers are of the view that the branches delay in approving Kudi Loans for customers.

Figure 4.4: Bar Chart Illustration of how the Delay by Branches in Approving Loans Affects the Customers' Businesses



Source: Field Data

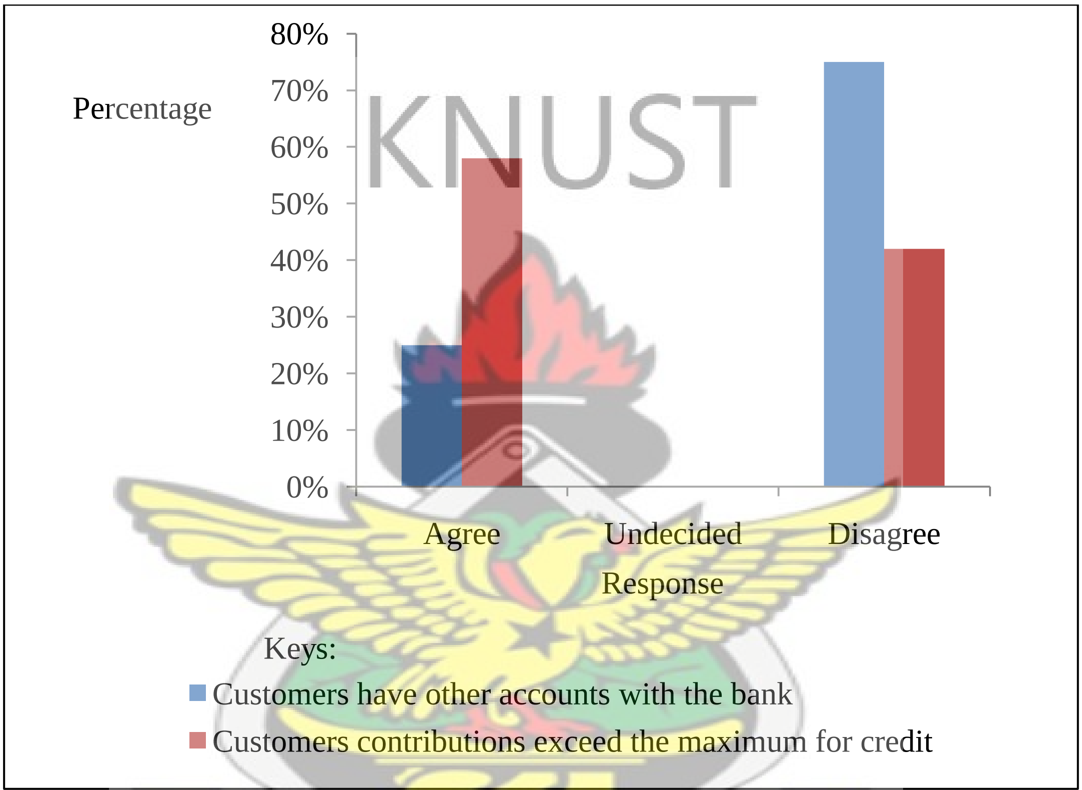
As indicated in the Bar Chart, the delay in approving Kudi Loans affects the businesses of majority of the customers. Obviously, this delay does not only negatively impact on the individual businesses but on the society as well. Customers may loss connections, or may not be able to seize opportunities and may invest at the wrong times. This in turn affects society.

4.3.3. Cultivation of Savings Habit

The researcher wanted to know how the Kudi Nkosuo product has encouraged the communities to improve upon their savings habit. Out of the one hundred (100%) respondents 75% operates only the Kudi accounts whilst 25% have additional accounts. However, 58% are able to exceed the maximum contribution for loan and

42% only the maximum contribution or less. Which means that, close to half of the customers only contributes to enable them secure the maximum loan amount and not to do any serious savings for future use. The figure below illustrates the responses.

Figure 4.5: How is Kudi Nkosuo Helping the Communities Cultivate Savings Habit?



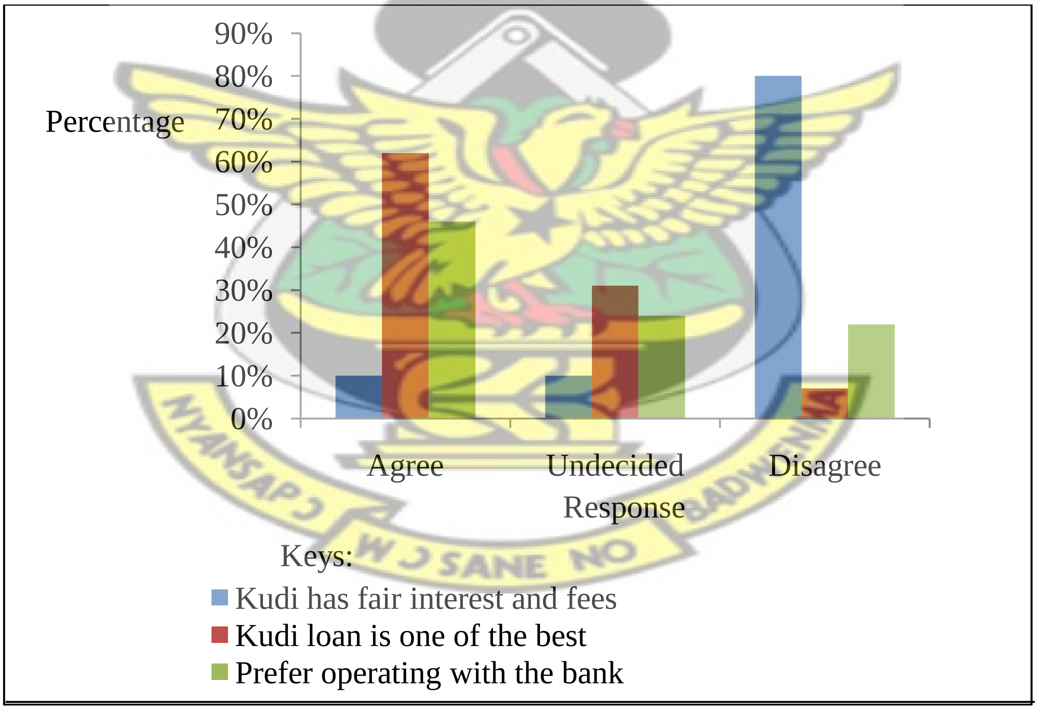
Source: Field Data

This shows that it is encouraging savings habit. However, the impact is very low since only few people try to exceed the maximum contribution for credit. Moreover, those who patronize the Kudi product are only few compared to the number of inhabitants in the area.

4.3.4. How Kudi Nkosuo Compares with Others

The researcher wanted to determine how the users compare the product with other Micro credit programs like the local Susu or Credit unions. Sixty-two (62%) were of the view that the Kudi loan is one of the best Micro credit programs in terms of its nature and operations. 7% believe it is not and 31% undecided. As a result 54% prefer dealing with the bank to any other local 'susu' type, with 24% undecided and 22% in disagreement. In terms of interest payment on the loan, 80% think the bank's interest should be less than that of the local credit schemes or credit unions and repayment should also be more flexible. However, 10% think the rate of interest is okay, whilst remaining 10% is undecided. So in effect the perception about the product is good. The only problem is the interest which needs to be reviewed to sustain the interest of those who patronize it. These findings are illustrated by a Bar Chart in figure 4.6 below.

Figure 4.6: Bar Chart Illustration of Customers' Perception about the Kudi Nkosuo Loans.



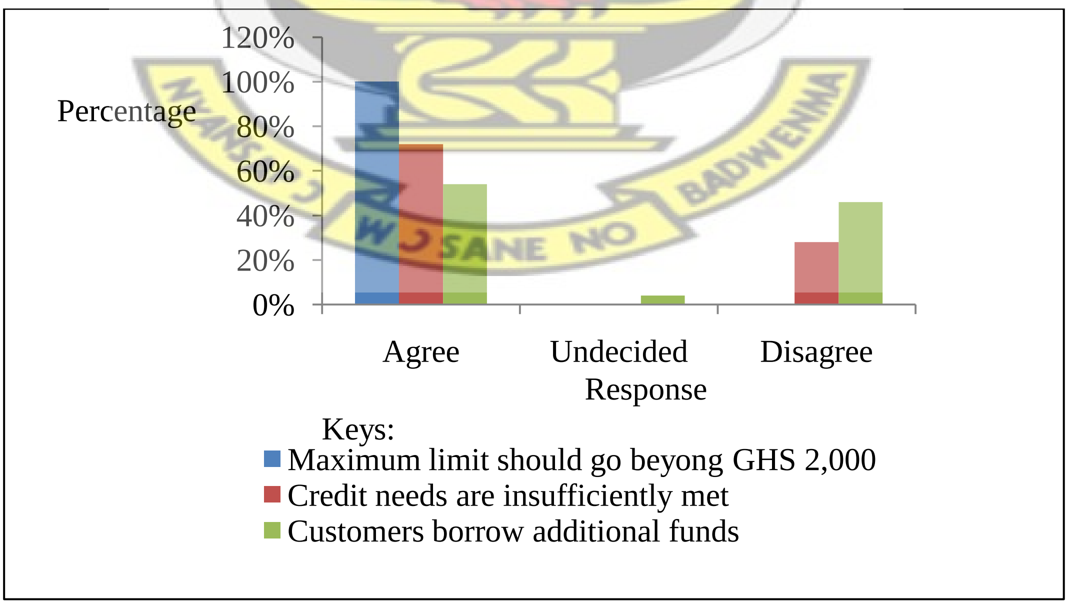
Source: Field Data

It can be seen that majority are of the view that Kudi Loan is one of the best Micro credit programs. However, they expect the interest to be low.

4.3.5. The Adequacy Test of the Kudi Loans

All the one hundred (100%) respondents suggested that the Bank increases the maximum limit beyond the current GHS 2,000.00. whilst 72% were of the view that that amount granted to them were woefully insufficient for their credit needs, 28% were also of the view that the amount are okay for them. As a result 46% of the Kudi Nkosuo loan beneficiaries always have to borrow additional funds at high interest rates from other sources to beef up their capital for business. To avoid the high interest rates on borrowed funds, 54% of them just make do with the amount approved for them by the bank. This obviously suppresses business expansion plans, and they do not get the full benefits of the loans. The society, therefore, does not benefit much from them. These findings are illustrated by a Bar Chart in figure 4.7 below.

Figure 4.7: Bar Chart Illustration of whether Kudi Loans are Adequate to Address the Credit needs of the Customers to enable them Grow their Businesses.



Source: Field Data

As indicated by the Bar Chart above, majority of them expect the limit to go beyond the current GHS 2,000 because their credit needs are insufficiently met.

4.3.6. How the Bank is using the Kudi Nkosuo Product to bring the Informal Sector into the Main Stream Finance Industry

The informal sector comprises individual self-employed of all categories including the small scale business-men and women, drivers, petty traders, artisans, hawkers, shoemakers, fitting mechanics, repairers etc. These people actually lack the needed collateral or have no historical financial data and are, therefore, not considered in the main stream credit by formal banking institutions. In an attempt to bring these people into the main stream credit, Kudi Nkosuo Product was introduced. It is the same local 'Susu' scheme that has been adopted from the informal sector and repackaged to enable the bank meet the credit needs of the informal sector. The responses are, therefore, used to determine the effectiveness of the bank in achieving this goal. Out of one hundred (100%) respondents, 54% of them suggested closer links from the banks in the form of business advice and training programs, whilst 26% felt it was not necessary because of the nature of their business and 21% were undecided. Moreover, only 11% agreed that Bank officials pay working visits to them. As much as 84% admitted the banks do not pay working visit and 5% undecided. This attitude is not helping the bank achieve this objective. The informal needs proper and closer attention, as suggested by 54% of the respondents. Since their activities provide market for formal sector, they matter so much in society. These are illustrated in the table below.

Table 4.3: Table Illustration of Customers' Response to how the Bank is Using the Kudi Product to Bring the Informal Sector into the Main Stream Finance Industry.

	Agree	**Undecided**	**Disagree**
Customers need business advice and training programs	54%	20%	26%
Bank officials pay working visit to customers	11%	5%	84%

Source: Field Data

4.3.7. General Impact of the Kudi Loans on the communities

Comparing the number of Kudi Loan customers to the number of inhabitants in the area, it can be seen that relatively very few people in the communities access the Kudi Loan facility. This is illustrated by table 4.4 below.

Table 4.4: Table Illustration of the General Impact of the Kudi Loans on the Communities

Area	**No. of Kudi Accounts**	**No. of Kudi Loan Customers**	**Percentage of Kudi Loan**	**Amt of Kudi Loans**	**Sample Size**	**Percentage of Sample Size**
Sogakope	1,812	198	10.93%	251,850	20	10.10%
Akatsi	192	36	18.75%	9,000	20	55.55%
Abor	297	30	10.10%	54,720	20	66.67%
Aflao	1,083	108	9.97%	180,300	20	18.52%
Dzodze	54	24	44.44%	10,500	20	83.33%
Total	**3,438**	**396**	**11.52%**	**506,370**	**100**	**25.25%**

Source: GCB Kudi Nkosuo Monthly Returns

Looking at the table above, and comparing the number of Kudi Nkosuo Loans granted in each area to the number of Kudi Nkosuo accounts in each area, it is obvious that the impact is not much felt by the society as a whole. It is just on individual basis. Only 11.52% represented by 396 out of a total number of 3,438 Kudi Nkosuo account holders enjoy the Kudi loans from 2002 to date. In terms of the amount of loans granted for the whole period of nine years in operation, Sogakope granted GHS 251,850, and on the average GHS 1,272 per customer. Akatsi granted GHS 9,000 with average amount of GHS 250 per customer. Abor's was GHS 54,720 with average amount of GHS 1,824. Aflao granted GHS 180,300 with average amount of GHS 1,669 per customer. Dzodze also granted GHS 10,500 with average amount of GHS 437 per customer. In relation to the number of Kudi accounts much has not been done. Only 11.52% have been able to access the Kudi Loans.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

The researcher focused attention on five areas namely Sogakope, Akatsi, Abor, Aflao and Dzodze. The Kudi Loan is a form of Microcredit that the bank introduced in 2002 to the self-employed in the informal sector. The research problem was whether the introduction of the Kudi Loans by the Bank was a way of bringing the informal sector into the main stream finance industry. The objectives of the study were to assess the public perception about the product, to examine how the product operates and to determine the extent to which the product encourages the cultivation of saving habit among the customers. Both Primary and Secondary Data were gathered and Quota Sampling Method used to get twenty (20) respondents from each area to complete the questionnaires. After the analysis the following were the key research findings:

Low Level of Public Patronage: Only few customers patronize the Kudi Nkosuo credit. Since the inception of the product in 2002 to April 2011, the total number of the Kudi Nkosuo accounts opened was 3,438. Out of this only 396 customers patronize the Kudi Nkosuo credit. This 396 represents only 12%. This shows that within a space of nine years, the various branches have granted loans to only one out of nine customers who are operating Kudi Nkosuo accounts with the bank.

Inadequate Sanctioned Amount: The maximum limit of GHS 2,000 is woefully insufficient for their business activities. The current maximum limit of GHS 2,000 was set in 2002 when the Kudi Nkosuo product was first introduced and nine years later the same maximum limit is sanctioned. To the extent that 46% of them always have to borrow additional funds at higher interest rates from other sources to beef up their capital for business means that the Kudi Nkosuo loan is inadequate to address the credit needs of the customers to enable them grow their businesses. This is a matter of concern because it leads to high cost of production and over dependence on loans.

Delay in Delivery: It came to light after the analysis that there is much delay in delivery by the bank. 54% of the respondents were of the view that the bank delay in the disbursement of the loans. This means the various branches do not seem to be sensitive to the urgent loan requests of the Kudi Nkosuo customers. According to the customers, this negatively affects their businesses as they are unable to take advantage of bumper harvests but invest at the wrong time.

Cultivation of Savings Habit: Actually the product encourages savings habit. Some of the customers open the Kudi Nkosuo accounts and begin the daily contributions which qualify them for loans after six months of consistent contributions. Others also contribute not to purposely qualify for the loan but to build up funds for future use. According to the analysis 54% of them are able to contribute beyond the threshold for the maximum loan amount. This is not bad at all. If daily deposits collections are intensified more of them will be eager to save more.

Weak Banker-Customer Relationship: The banker-customer relationship also appears to be very thin. Bank officials do not pay working visits to customers to familiarize with their business activities and to ascertain the problems they go through so that necessary intervention programs can be drawn to improve their services for the customers.

Lack of Training and Advisory Programs: The researcher also found out that the branches do not organize any training and business advisory programs for the customers to enable them gain some skills. Even though their businesses appear to be small, 54% of them desire to have some sort of business advices and training programs to enable them gain some skills.

5.2. Conclusion

It can be deduced from the analysis that the Socio-Economic impact of the Kudi Nkosuo credit of Ghana Commercial Bank limited on selected communities in the Volta Region is very low. Relatively very few customers patronize the product. Majority of the customers who patronize the product have a lot of unaddressed concerns about the product. Generally, it can be said that, the product per say, is a very good product that can be used to achieve the objective bringing the informal sector into the main stream finance industry. The society can also benefit through increased growth of individual businesses and increased incomes. For instance, Freedom from Hunger clients in Ghana increased their monthly incomes by $36 compared to $18 for non clients (Helms Brigit, 2006). But its administration leaves much to be desired. The bank needs to do much to ensure that greater positive impact is made for mutual benefits.

5.3. Recommendations

The customers raised a lot of concerns in the questionnaires which need to be addressed for their smooth activities and for the benefits of the society at large. This has necessitated a set of recommendations to the bank. It is hoped that the bank will use them to address these concerns for the mutual benefits of the customers, the bank and the society. The following recommendations are made for the bank to improve on the operations of the Kudi Nkosuo Loans:

i. More promotion work needs to be done. If possible, advertisement should be placed in both the print and audio-visual media to create more awareness. This will no doubt, lead to increase in patronage, and hence greater positive impact. The study indicates that only 12% of the customers are on loans up to date, and this is not encouraging.

ii. Again only 54% are able to save more than the maximum contribution for the loans. This is not advisable. They should not save or contribute purposefully for the loans but for the future growth of equity as well. The branches should encourage them to step up savings or contributions. Daily deposits collections should be intensified for the mutual benefits of the customers, the bank and the society.

iii. The Bank should also do well to erase the bad perception that the branches do not deliver timely. To the extent that the delay affects the business activities of about 50% of the customers is a great concern which needs to be addressed. Special Kudi Loan Desk should be created at each branch and Kudi Loan requests should be responded to instantly.

iv. Maximum limit of GHS 2,000 is woefully insufficient for their business activities. To the extent that 46% of them always have to borrow additional funds at higher interest rates from other sources to beef up their capital for business is also a matter of concern because it leads to high cost of production and over dependence on loans. A Kudi Loan limit of GHS 5,000 is recommended. The current limit of GHS 2,000 was set in 2002 when the Kudi product was first introduced and nine years later the same limit is sanctioned (GCB Kudi Nkosuo Manual, 2008). Inflation may have eroded the value of the GHS 2,000.

v. Bank officials need to pay periodic working visits to customers to familiarize with their business activities and to know their problems. So that the necessary intervention programs can be drawn to improve the business activities of the informal sector for mutual benefits.

vi. If possible, the Bank should occasionally organize business advisory and training programs for the self-employed in the informal sector to enable them gain some skills for their businesses.

vii. The establishment of a special department in the bank which will handle the concerns of the customers in the informal sector. This will smooth their activities and help create more value. It will also erase the bad perception about the administration of the product.

viii. It is also advisable that the bank redesign a special policy for the Micro Credit business. They can even adopt the Policy of the Grameen Credit which was introduced by Professor Muhammad Yunus in 1976 in Bangladesh where credit requests are instantly approved and installments repayments are frequently made in small amounts at the convenience of the customer.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

INSTITUTE OF DISTANCE LEARNING

MBA PROJECT WORK

QUESTIONNAIRE ON " THE SOCIO-ECONOMIC IMPACT OF KUDI NKOSUO CREDIT OF GHANA COMMERCIAL BANK LTD ON SELECTED COMMUNITIES IN THE VOLTA REGION"

Questionnaires to be answered by Kudi Nkosuo credit beneficiaries.

Dear Sir/Madam,

This questionnaire is part of a research project to study the socio-economic importance of 'Kudi Nkosuo Credit' of Ghana Commercial Bank Limited on selected communities in the Southern part of the Volta Region. Your response would greatly assist me obtain a full understanding of this significant issue. I would, therefore, be very grateful if you could lend me a bit of your time in completing this questionnaire. Please note that this study is purely academic exercise and the information collected will be treated as strictly confidential.

Thank you very much for your support and understanding.

SECTION A- Personal information

Please give answers to the following questions

1. Gender : (A) Male…………….... (B)Female……………………
2. Age ……………………
3. Nature of business…………………………………………...………………..
4. Location of business
   (a) Within the town………. ……….(B)Outside the town……………………..
5. Since when have you been a Kudi customer?..
6. Who introduced the product to you?...

SECTION A- Kudi Nkosuo Credit

Please indicate your level of agreement on a scale ranging from 1-Strongly disagree, 2-Disagree, 3-Undecided, 4-Agree to 5-Strongly agree.

		1	2	3	4	5
1	I have qualified and successfully applied for Kudi loan before.					
2	The amount I always apply for is sufficient for my credit needs.					
3	I always have to beef up my credit needs with borrowed funds from a different source.					
4	The additional borrowed funds have high interest rates.					
5	The reason for my inability to get the needed credit needs is that the loan has maximum limit.					
6	The system of determining your maximum credit by multiplying your contribution by two is good					
7	I have constantly been taking the Kudi Nkosuo credit.					
8	The bank gives instant response to my loan request					
9	Delay in granting credit affect my business badly					
10	The bank's explanation for the delay in granting credit is always tangible					
11	I have defaulted in loan repayment before					
12	The cause of the default is business failure					
13	When I explain the cause of the default the bank understands and extends the repayment period for me.					
14	The system of repayment is convenient to me					
15	I expect the system of repayment to be more flexible					
16	I always recommend the product to friends I meet					
17	I suggest the bank increases the maximum limit beyond the current GHS2,000.00					
18	The bank is very fair to customers in respect of interest and fees.					
19	Kudi Nkosuo credit is one of the best micro credit products					
20	I prefer doing business with the bank to any other micro credit institution					

SECTION B- Deposits and Collections

Please indicate your level of agreement on a scale ranging from 1-Strongly disagree, 2-Disagree, 3-Undecided, 4-Agree to 5-Strongly agree

		1	2	3	4	5
1	The present mode of daily collections is convenient .					
2	I suggest the bank allows me to deposit as and when I want to					
3	It is advisable that I sometimes walk to the bank to do the deposit myself					
4	I sometimes send somebody to do the deposit on my behalf					
5	My business does not allow me any time to go to the bank to do deposit myself					
6	The Kudi daily collector should stop collecting my deposits.					
7	My contribution always exceed the maximum contribution for credit.					
8	The present mode of collection where kudi officer goes round to collect the money on daily basis is the best.					

SECTION C- Results

Please indicate your level of agreement on a scale ranging from 1-Strongly disagree, 2-Disagree, 3-Undecided, 4-Agree, 5-Strongly agree

		1	2	3	4	5
1	I have noticed a vast improvement with the product since its reintroduction					
2	I have made a suggestion for its improvement before					
3	I have other sources of income apart from my the business					
4	I have another account apart from the Kudi Acoount					
5	Kudi credit is my major source of funds or credit for the business					
6	The Kudi credit has helped me grow my business					
7	I need additional help like business advice and training					
8	Bank officials sometimes pay working visit to my shop					
9	I have engaged the services of a shop attendant					