KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS

DEPARTMENT OF MARKETING & STRATEGIC MANAGEMENT

ASSESSING THE IMPACT OF MICROFINANCE ON PRODUCTION AND INCOME DISTRIBUTION – A CASE STUDY OF ASHANTI REGION

A thesis submitted to the KNUST School of Business, College of Art and Social Sciences, Kwame Nkrumah University of Science and Technology, Kumasi, in partial fulfillment of the requirement for the Degree of Masters of Business Administration

Presented By:

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April, 2009

DECLARATION

I, Maxwell Kusi, hereby declare that, except for references to other people's work, which have been duly acknowledged, this work is the result of my own original research.

I hereby also declare that this work has neither in whole nor in part been presented for degree elsewhere.

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DEDICATION

With gratitude to the Lord God Almighty, I dedicate this thesis to

My Parents

ACKNOWLEDGEMENT

This study has been possible through the contributions of many people and I give my sincere thanks to them all.

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ABSTRACT

Microfinance, and its impact, has received considerable attention over the last few decades. Several studies confirm a positive impact on the beneficiaries. Nevertheless, these studies only consider the effect of a micro-loan whilst microfinance nowadays incorporates much more than just credit.

This study seeks to assess some of the barriers to accessing microfinance, availability, and affordability of the service, readiness of client to utilize the services as well as readiness of providers to render the service.

The main objective is to assess the impact of microfinance on production and income distribution in the Kumasi Metropolis of Ashanti Region.

A descriptive current cross-sectional study was done from June 2008 to September 2008 in the Kumasi Metropolis with an estimated total population of 1,625,180. Simple Random sampling method was used to select 300 respondents from some microfinance and savings and loans institutions.

At the end of the study, it was realized that 120 out of 300 respondents (40%) had accessed the service for more than twice and about 150 out of 300 (50%) had accessed it once. About 260 (87%) out of 300 respondents also confirms improvement in their living standards through the microfinance. But only 40 (13%) of respondents had not seen any improvement in their living standards.

In conclusion, the fact that more people are accessing the services shows more people are embracing the introduction of the service. Thus, there is still room for more to be done in terms of reasonable interest rates, flexible repayment terms, protection of deposits of others savings and proper training and education of staff of the microfinance institutions.

CHAPTER ONE

GENERAL INTRODUCTION

1.1 INTRODUCTION

This chapter deals with the general introduction to the study; assessing the impact of microfinance on production and income distribution- a case study of Ashanti Region. It involved the following subheadings: background to the study, statement of the problem, significance of the study, objectives of the study, research question, scope of the study, and the limitations and the organization of the study.

1.2 BACKGROUND TO THE STUDY

Around 1.2 billion people worldwide live on less than US$1 a day; 75% of these people are women. Many have little or no access to health care and lack the means to provide sufficient nutritional food for themselves and their families. This level of poverty is associated with a sense of powerlessness and vulnerability, as well as the physical and social underdevelopment of children (Gonzalez-Vega 1998).

Microfinance, the provision of small loans and savings facilities, is an effective way for poor people to increase their economic security and thus reduce poverty. Microfinance enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and income.

The spectacular growth of the microfinance industry has been fueled not by market forces but by conscious actions of national governments, nongovernmental organizations (NGOs), and donors who view microfinance as an effective tool for alleviating poverty. Since much of the impetus behind this large and increasing support for microfinance hinges on the assumption that its economic and social impacts are significant, it needs to be examined more closely.

Today, microfinance plays a major role in the development of many African, Asian, and Latin American nations. Its impact is substantial enough to have warranted acknowledgment by the United Nations who declared 2005 "The international year of microfinance", reminding people that millions worldwide benefit from microfinance activities (Morduch 2000, Woller et al. 1999a).

Poor, food-insecure households seek to avoid the risk of falling below a minimum level of consumption of food and other basic goods that would threaten their survival. In general, there are two types of risk coping, income smoothing and consumption smoothing. Households can smooth income by making conservative production or employment choices, diversifying economic activities, or taking steps to protect themselves from adverse income shocks before they occur. Households can smooth consumption by borrowing and saving and by employing formal and informal insurance arrangements. These actions help insulate consumption from income variability (Zeller 2000).

Policymakers, who have to allocate public resources between competing ends, ask how credit programs affect broader social goals such as adoption of agricultural technology, income generation, and attainment of food security. Sometimes even broader goals are considered such as women's empowerment or environmental quality. Assessing these benefits helps policymakers evaluate the relative weight to attach to credit programs vis-à-vis other poverty alleviation programs and helps them answer the question of whether shifting resources away from other poverty programs toward credit based programs is good social policy.

Much effort is under way to attempt to answer the question of whether greater access to credit leads to greater levels of income, wealth, and consumption. Many microfinance services in Asia and Africa target women on the assumption that empowering women and targeting services to them leads to better allocation and use of household resources. Studies done in Bangladesh by Pitt and Khandker (1998) support this assumption, indicating that services directed to women significantly increase assets, incomes, and educational attainment of children, especially girls. But positive gender effects cannot always be taken for granted, as other studies, also in Bangladesh, highlight cases where only a few of the targeted women were able to exercise effective control over loan use. Some point out that some-time the very lack of women's empowerment makes it easier for program managers to enforce loan conditions, thus making them preferable borrowers (Hossain 2002).

It is expected that an increased supply of credit needs of the rural folks around Ashanti region could go a long way to increase their output. Besides, their income level is expected to increase and hence lead to an improvement in their standard of living.

1.3 STATEMENT OF THE PROBLEM

Worldwide, there have been increasingly number of microfinance institutions providing financial services to an estimated 100 – 200 million of the world's poor (Christen et al. 1995). The Researcher is more concerned with finding out, how the introduction of microfinance activities has helped to reduce the poverty level especially in the Ashanti region, Ghana. The problems of microfinance have been linked to the following.

First, access to credit, lack of access to financial services for income and consumption can have serious implications on livelihood. For example, according to Zeller (2000) in two separate studies, the nutritional status of children in poorer households in Bangladesh severely suffers in the aftermath of disastrous floods as a result of insufficient informal coping mechanisms and access of credit.

Secondly, collateral security, in the same vein, many commonly found credit and savings institutions demand unreasonable forms of collateral especially, if one doesn't have a good history with them. Some collaterals ranges from land, machinery and buildings and as are common in the majority of credit-focused microfinance schemes, a fixed percentage may be held to secure a loan.

Thirdly, bureaucracies involved in the documentation and processing of credit. This normally discourages potential clients from accessing the credit. One have to go through a number of administrative procedures such presenting their past credit history, inspection of specific trade, and among others. Meanwhile, majority of these clients hardly keep proper records of their daily transactions.

Finally, high interest rates attach to credit. Most microfinance institutions aim to maximize much profit at the expense of their clients by putting high rate of interest on their credit. This in turn affects the activities of their clients and sometimes takes them out of business.

The researcher will try to find out whether the activities of microfinance stakeholders have achieve significant results by helping to bridge the gap in production and income distribution in the Ashanti region.

1.4 OBJECTIVE OF THE STUDY

The research work was to investigate the impact of microfinance activities in the Ashanti region. Other objectives also called for this research and it includes the following:

- To identify whether or not Microfinance stakeholders are helping to increase production activities within their areas of operations.
- To find whether all categories of beneficiaries have access to credit facilities.
- To identify whether or not credit is put into the purported activities
- To find out whether or not the income levels and the standard of living of the beneficiaries in the Ashanti region have improved as a result of the establishment of the Microfinance policy.

1.5 RESEARCH QUESTIONS

- How has microfinance helped to increase production levels and bridge the income distribution gap?
- How has microfinance facilitated to increase access to credit?
- How has microfinance helped to improve the living standards of the poor?
- How has the microfinance programme helped to reduce poverty level?

1.6 SIGNIFICANCE OF THE STUDY

Unfortunately the majority of the poor do not have access to formal microfinance services. Many have to turn to informal moneylenders who charge exorbitant interest rates. It is envisaged that the outcome of the study will serve as an important guide to policy makers such as Ministry of Trade and Industries, Ministry of Local Government and Rural Development and policy implementers such as financial institutions on the issue of impact of microfinance on production and income distribution in the country as a whole. Also, this study would help in an assessment of the microfinance stakeholders with respect to production and income distribution.

Not least, it will also serve as a written document to add to the existing literature on the subject, and be a guide and a springboard for further research.

1.7 SCOPE OF STUDY

Even though a nationwide study would have been more appropriate, there were constraints of time and financial resources that did not make it possible to go nationwide. Also, the researcher is combining academic work with this study, as such: he is therefore compelled by certain academic demands to limit the study to Kumasi Metropolis in Ashanti Region. This study took into consideration Microfinance Stakeholders in Ashanti Region.

1.8 LIMITATION OF THE STUDY.

The problems faced during the execution of this project were huge as the project itself. The first problem was the identification of the microfinance institutions and beneficiaries, most of them thought I was from the IRS or other government agencies to monitor their progress for tax and other purposes. Because of time constraint, this work was limited to few institutions and beneficiaries. The collection of the questions was also very difficult.

1.9 ORGANISATION OF THE STUDY

The study was organized into the following chapters:

Chapter one was the introduction which gives an overview and background of the study. The chapter also has the problem statement, objectives of the study, significance of the study, scope of the study, limitations of the study, and the organization of the study. This was followed by Chapter two which also covers review of related literature to the study.

Chapter three focused on the methodology of the study. That is, methods and techniques that was used for data collection and analysis. This was followed by Chapter four which dealt with research findings, results, and analysis of data collected.

Chapter five covered discussion of findings to the study. The last chapter was chapter six and it was concerned with summary, recommendations, and conclusion to the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Microfinance is the term that has come to refer generally to such informal and formal arrangements offering financial services to the poor. Microfinance has existed, although mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades, however, that serious global efforts have been made to formalize financial service provision to the poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum. Today there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al. 1995).

It must be emphasized too that the animating motivation behind microfinance was poverty alleviation. Not only that, but microfinance offered the potential to alleviate poverty while paying for itself and perhaps even turning a profit—"doing well by doing good." This potential, perhaps more than anything, accounts for the emergence of microfinance onto the global stage (UN 2005).

2.2 The Self-Sufficiency and Sustainability of MicroFinance Institutions (MFIs)

Unlike formal sector financial institutions, the large majority of MFIs are not "sustainable," where sustainability is equated in microfinance literature and parlance with financial self-sufficiency. Instead, most MFIs are able to operate without covering their costs due to subsidies and gifts from governments and other donors. Notwithstanding, the microfinance industry is dominated by an institutionist paradigm (Morduch 2000, Woller et al. 1999a) asserting that an MFI should be able to cover its operating and financing costs with program revenues. The conceptual foundations of the institutionist paradigm stem to a large degree from the work of researchers at the Ohio State University's Rural Finance Program. Their analysis of the failed rural credit agencies established by several LDC governments during the 1960s and 1970s diagnosed the primary cause of failure to be the "lack of institutional viability" (Gonzalez-Vega 1994). This diagnoses led logically to two principal conclusions:

(1) Institutional sustainability was key to successful provision of financial services to the poor and

(2) Financial self-sufficiency was a necessary condition for institutional sustainability.

The institutionist argument is consistent with Hollis and Sweetman (1998a) who discuss six historical cases in an attempt to identify the institutional designs that facilitated success and sustainability.

Morduch (2000) reports a rough estimate that only 1 percent of MFIs are currently financially self-sustainable and that no more than 5 percent ever would be. Additionally, Bennett and Cuevas (1996) argue for the need of building sustainable financial systems for the poor from three perspectives:

a) Financial sector development,

b) Enterprise formation and growth, and

c) Poverty reduction.

Welfarists argue that MFIs can achieve sustainability without achieving financial self-sufficiency (Morduch 2000, Woller et al. 1999a). They argue that donations serve as a form of equity, and as such, the donors can be viewed as social investors. Unlike private investors who purchase equity in a publicly traded firm, social investors do not expect to earn monetary returns. Instead, these donor-investors realize a social, or intrinsic, return. Social investors can be compared to equity investors who invest in socially responsible funds, even if the expected risk-adjusted return of the socially responsible fund is below that of an index fund. These socially responsible fund investors are willing to accept a lower expected financial return because they also receive the intrinsic return of not investing in firms that they find offensive. Microfinance social investors take this notion to the limit, generally earning zero financial returns and relying totally upon intrinsic returns.

Welfarists tend to emphasize poverty alleviation, place relatively greater weight on depth of outreach relative to breath of outreach, and gauge institutional success more so according to social metrics. This is not to say that neither breadth of outreach nor financial metrics matter. Welfarists feel these issues are important, but they are less willing than institutionists to sacrifice depth of outreach to achieve them. Welfarists envision an industry characterized by a plurality of institutional types—including both profit-seeking and social-mission entities—targeting different markets, with different combinations of market and non-market funding, and with different levels of commitment to social versus financial return.

Morduch (2000) refers to the debate between institutionists and welfarists as the "microfinance schism." Driving the schism are competing perceptions of the implications for financial self-sufficiency on depth of outreach. General consensus holds that there exists a tradeoff between financial self-sufficiency and depth of outreach (e.g., von Pischke 1996). But masked by this consensus is much disagreement about the nature, extent, and implications of this tradeoff. Nonetheless, what little evidence exists suggests that those MFIs that have achieved true financial self-sufficiency have also tended to loan to borrowers who were either slightly above or slightly below the poverty line in their respective countries (Navajas et al. 2000).

These MFIs are able to capture economies of scale by extending larger loans to the marginally poor or non-poor. Although still an open question, this limited evidence leads many to conclude that if financial self-sufficiency is desired, then the very poor will not be reached by MFI services. That is, the MFI will not be able to achieve enough depth to reach those who need credit the most desperately.

An important area of financial research that has yet to be rigorously explored but which has significant potential to inform the debate mentioned above is the feasibility of introducing microfinance into the world capital markets. With the high repayment rates of many MFIs (e.g., upper 90 percent in many cases), there exists the potential to tap MFIs into world capital markets through instruments such as commercial banks loans, commercial paper, bond financing, equity financing, or through the bundling and securitization of MFI loans. Determining avenues to permit investment in MFIs via capital markets is an area of research that seems tailored to the tools and theory of finance academics.

In practice, there are currently several ongoing attempts to tap capital market investors for MFI funding. The ACCION Gateway Fund makes equity, quasi-equity, and debt investments in MFIs with a proven track record of financial sustainability. The AfriCap Microfinance Fund makes equity investments in African-based MFIs, as well as financing technical assistance for said MFIs. Blue Orchard Finance promotes private investments in microfinance by identification and analysis of MFIs and investment monitoring and reporting of its funds. Using a venture capital approach, ProFund International is an investment fund that attempts to earn a competitive return for its shareholders while facilitating MFI growth. Finally, the Community Reinvestment Fund provides a secondary market for microfinance loans by securitizing the microloans and collateralizing bonds that are sold to private investors. If capital markets can be tapped to give MFIs the needed funds to be self-sufficient, and if investors can earn returns commensurate with the risk borne, the vision of a poverty-alleviation mechanism that pays for itself (both implicit and explicit costs) may be realized in greater proportions. Issues surrounding MFI sustainability and self-sufficiency, and the implications/tradeoffs implied therein seem well-suited for finance researchers. Few rigorous studies have been conducted in a financial institutions framework to develop and test theory pertaining to MFI self-sufficiency (Morduch 2000, Woller et al. 1999a).

Some evidence does exist however, that MFIs have historically been very resilient and sustainable. Hollis and Sweetman (2001) discuss the microloan funds in 18th and 19th century Ireland. They report that Irish loan funds thrived for over 100 years due to their ability to change rapidly to external conditions, at one point providing financial services for 20% of Ireland's population. It took a combination of formal bank lobbying that resulted in anti-MFI legislation and the Irish potato famine to cause the demise of these early loan funds. Patten et al.

2.3 Microfinance Institution Products and Services

MFIs provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on enterprise lending (loans for enterprise formation and development) which remain by far today the dominant product offered by MFIs (Nourse 2001, Woller 2002a). This, however, has slowly begun to change. Increasingly today MFIs have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education.

Nourse (2001) reviews the context and rise of microfinance products and argues there is a need for savings and insurance services for the poor and not just credit products. He goes on to argue that MFIs need to provide tailored lending services for the poor instead of rigid loan products. Supporting this latter assertion of Nourse (2001), Eyiah (2001) develops a model of small construction management contractors and MFIs in developing countries that provides a tailored lending structure for microenterprise contractors.

Similarly, Woller (2002a), Cohen (2002), and Dunn (2002) argue that MFIs need to be more client-focused, including offering a mix of financial products tailored to the varied needs and wants of poor consumers. Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Wenner 1995).

Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each member's interest to ensure that the other members pay. Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community (Woolcock 2001).

Goldmark (2001) suggests methods that may help build social collateral, thereby making loans even more secure. Van Tassel (1999) constructs a model and one-period game to determine the optimal group lending contract under asymmetric information. He concludes that agents will always form groups with agents of the same type and that agents' types can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates. Ghatak (1999) concludes that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group. Similar to Ghatak, Islam (1995) concludes that lenders using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate, the expected rate of repayment is higher with lower risk when using peer monitoring. Within the lending function of microfinance, it is useful to divide loans into enterprise loans and consumption/emergency loans.

As mentioned above, the loan programs typical of MFIs almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans (Woller 2002a).

The demand for consumption/emergency loans is evident in developing countries by the thriving business of the local moneylenders. Although stereotyped as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavory collection methods, the traditional moneylender provides a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing consumption needs or to cope with emergencies. Like savings, consumption/emergency loans form an integral component of poor households' risk management and coping strategies. Those in the microfinance industry who assumed that formal MFIs would drive the traditional money lenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs.

A good illustration is the case described by Perry (2002), in which women moneylenders in Senegal used loans from a local MFI to finance their own money lending businesses. It turns out that just as the terms of the loans offered by moneylenders (rapid loan approval, flexible terms, repayment periods measured in days or weeks, and lump-sum payments at exorbitant interest rates) makes them generally ill-suited as a source of enterprise financing, the terms of enterprise loans offered by MFIs (slow turnaround, inflexible terms, repayment periods measured in months or a year, and regular small payments at relatively low interest rates) are generally ill-suited for emergency/consumption purposes. An important source of consumption/emergency loans in developing countries are pawn shops. Ismail and Ahmad (1997), for example, discuss the role of pawnshop lending in Malaysia. They report that Malaysian pawnshops have increased in importance as lending institutions and are projected to continue to do so due to more affordable transportation, interest rate regulations, and financial liberation, among other factors. Along with the lending function, a market for savings exists in poor areas around the world. Savings services offered by MFIs can be divided into forced and voluntary savings, with forced savings far exceeding voluntary savings. In a forced savings program, microfinance participants are required to save a minimum amount each week (or other set period of time).

Forced savings ostensibly teaches financial discipline and provides the MFI with additional information about clients. In practice, forced savings serve primarily as a form of cash collateral. Rules regulating when and how clients may withdraw forced savings are typically highly restrictive.

The second form of savings is voluntary, flexible savings (Nourse 2001, Montgomery 1996). Millions from all strata of poor do not operate enterprises, but they do save, albeit often in very small amounts and at inconsistent intervals (Beverly and Sherraden 1999). Savings are integral to poor households' risk management strategies; they constitute the first line of defense to help poor households cope with the external shocks, emergencies, and life-cycle events to which they are so vulnerable; and they play a crucial role in allowing the poor to take advantage of productive investment opportunities (Grosh and Somolekae, 1996).

A reasonable estimate of the market for savings among the poor indicates that savings demand substantially exceeds the demand for enterprise loans. Christen (2001), for example, reports that over a space of two to three years, retail banks in Latin America opened millions of small deposit accounts in countries in which MFIs added fewer than 200,000 loan customers over the same period. At MFIs that offer both enterprise loans and voluntary savings, moreover, savers typically exceed borrowers by large multiples.

Characteristic of poor households is extreme vulnerability to risk and external shocks. Traditionally, poor households have managed risk and coped with external shocks through a combination of informal social support networks, savings, and borrowing from informal moneylenders. Participation in microfinance programs offers another set of risk management and coping options for poor households. Participation in formal microinsurance schemes offers yet another option. Just as a large demand for formal savings and loans exist among the poor, there is also believed to exist a large demand for formal insurance (Churchill 2002).

Although microinsurance is in the early stages of development, efforts are being made to formalize and design the process. There are some success stories (e.g., FINCA Uganda offers its clients health and other types of insurance through an AIG subsidiary based in South Africa), but overall progress is modest so far owing in part to the very different nature of insurance compared to savings or loans and to the fact that few MFIs possess specialized knowledge of how to set up or run insurance programs. In another example of microinsurance research, Mishra (1994) analyzes crop insurance in Gujarat and finds that the availability of crop insurance resulted in increased loan repayments in absolute terms, although it is not clear if the propensity to repay improved. Additionally, Mishra documents a significant increase in the flow of credit to insured farmers after the introduction of the insurance program.

The overview of issues related to microfinance products and services would not be complete without brief discussion of integrative approaches—integrating non-financial services (usually education) with financial services—to microfinance. A handful of articles have examined integration of microfinance with other development services. Smith (2002) compares minimalist MFI services in Ecuador and Honduras to those offering financial services integrated with health education. Using surveys of 963 Ecuadorian clients and 981 Honduran clients, he finds that clients in integrated programs experienced improved family health, while those in minimalist programs did not. Using 20 minimalist MFIs and 84 banks that offered health education, Smith finds no significant difference in the performance of the MFIs. Also in support of an integrative approach, Edgcomb (2002), Cook et al. (2001), and Dumas (2001) each use case methodology to analyze MFIs offering integrated business development training. They conclude that business development training significantly improves microenterprise performance and microentrepreneur empowerment.

A final issue meriting mention is provision of equity in lieu of credit for enterprise formation and start-up capital. Pretes and Seibel (2002) discuss several cases of this practice in East Africa. They refer to this service as providing enterprise equity; however, in finance vernacular, this service would most likely be considered a grant. They argue that those who invest (donate) the equity in such cases receive their returns intrinsically, as they do not receive a financial ownership position in the startup firm (microenterprise).

2.4 Best Practices in Microfinance Institution Management

When we use the term best practice, we use it in a general framework, realizing, as Dunford (2000) argues, that best practices vary and change constantly as the microfinance fields matures. Due to the nature of MFI clientele and the disparate environments in which MFIs operate, best practices must be adaptable to the specific area in which the institution operates. Bhatt and Tang (2001c) discuss MFI vehicles, technologies, and performance assessments and conclude that the future success of microfinance will depend on MFI design tailored to specific clients. Bhatt and Tang's assertion highlights the importance of research to develop sound practices of MFI design and management.

The primary topics covered within the extant MFI best practice literature include the determination of an optimal interest-rate to charge borrowers, whether to lend to groups or to individuals, commercialization of MFIs, aspects of loan size and growth, credit scoring, and lending relationships with customers. Whereas the setting of interest rates in a for-profit financial institution is determined by the rate that will maximize shareholder wealth, MFIs face unique issues in setting an appropriate rate. If MFIs charge rates too high, they may hinder their ability to help the poor pull themselves out of poverty as well as price very poor persons out of the market for loans. Excessive interest rates may also lead to MFI losses as borrowers cannot pay, default on loans, and, in the case of group lending, bog down their solidarity groups. On the other hand, due to the small principal amounts inherent with microcredit, little economies of scale exist in the lending process to cover fixed costs. MFIs, moreover, operate with very high administrative costs per dollar lent relative to formal financial institutions. Thus, to achieve financial self-sufficiency, MFIs have to charge relatively high interest rates.

Conning (1999) constructs a theoretical model of the contract design problem facing MFIs that want to maximize impact, target the poor, and achieve financial self-sufficiency. Using data from 72 MFIs, Conning finds that sustainable MFIs that target poorer borrowers must charge higher interest rates, have higher staff costs, and are less leveraged than those targeting less poor borrowers. In contrast, Hollis and Sweetman (1998b) analyze mid-19th century Irish loan funds and find that MFIs were able to lend to the poor at competitive interest rates without subsidies. These Irish MFIs combated informational and enforcement problems while operating at a surplus in a market that formal sector banks would not serve. Indirect evidence that the poor may not mind paying high interest rates can be drawn from Perry (2002) where MFI clients borrow funds to become moneylenders, presumably successfully lending at rates higher than their MFI charges. The poor who cannot obtain MFI membership are thus willing to pay rates higher than that charged by the MFI. Robinson (1996) also argues that interest rates charged to microfinance borrowers should cover all costs and that the working poor can afford these rates which are relatively low compared to their alternatives.

Finally, Fafchamps (1997) uses simulation methodology to show that interest rate subsidizations have little impact on whether poor in India invest in non-divisible and irreversible profitable projects.

Another main issue is the choice between offering group loans or individual loans. As discussed in Section 2.2, MFIs often rely on social collateral within loan groups to secure their loans (Woolcock 2001). Gomez and Santor (2001) provide empirical evidence of the importance of social collateral. In an empirical study of 612 group borrowers and 52 individual borrowers in Canada, they report that group lending and the presence of neighbors have a positive correlation with self-employment earnings. It follows that borrowers with higher earnings will have an easier time of servicing their microloans.

Woolcock (1999) also addresses the issue of group-lending design. Analyzing five cases of MFI failures in Ireland, Bangladesh, and India, he concludes that group performance depends on MFI lending policies, cost structures, nature and extent of social relations among group members, and MFI staff. Bhatt and Tang (2001a) go on to discuss group lending under the frameworks of incomplete information theory and transactions cost theory. Based on their analysis, they offer recommendations for setting-up and managing an MFI. Although group loans make up the bulk of microloans worldwide, individual lending is significant in some areas and is growing in popularity. Armendariz de Aghion and Morduch (2000) consider microfinance beyond group lending in Eastern Europe, Russia, and China. They describe the mechanisms that allow MFIs to successfully penetrate new segments of credit markets. These features include direct monitoring, regular repayment schedules, and the use of non-refinancing threats.

We turn next to the importance of sound MFI management practices. Milgram (2001) presents the case of an MFI in the Philippines that attempted to become self-sufficient too quickly, resulting in targeting not-so-poor who already owned operating businesses. She argues that the MFI's rush to self-sufficiency forced it to be at odds with its original mission of targeting the very poor and facilitating the creation of microenterprises. Bhatt and Tang (2001b, 2002) focus on social, financial, and administrative intermediation on the determinants of repayment rates in US microenterprise programs. Tucker (2001) addresses financial performance benchmarking of MFIs. Finally, Park and Ren (2001) empirically contrast the implementation of microfinance services provided by non-government MFIs versus the Chinese government. Their tests indicate that microfinance NGOs have positive results in targeting, sustainability, and impact, whereas government programs do not. The data supports the notion that efficient MFI management contributes significantly to accomplishing microfinance objectives.

In articles that address more specific areas of loan structure, Schreiner (2001) and Painter and MkNelly (1999) analyze factors that drive loan size and loan growth respectively. Schreiner identifies seven aspects of loan size and how they impact MFI depth of reach and profitability. Painter and MkNelly identify factors that drive loan growth and show that these factors vary across loan cycles.

Churchill (2000), Schreiner (2000), and Norell (2001) all address attempts to incorporate existing banking practices into MFIs. Churchill discusses the impact of customer loyalty, similar to the relationship lending literature in mainline finance (e.g., Petersen and Rajan (1994), Berger and Udell (1995), and Cole (1998)) and concludes that customer loyalty is key to MFI success. Schreiner discusses the role of credit scoring in MFIs and argues that scoring can add value to the MFI process. Norell discusses techniques that MFIs can use to reduce arrears, which include following-up quickly on loans in arrears, forming strong solidarity groups, updating and enforcing credit policies, and concentrating on the scope of lending. Finally, Woller (2002b) reviews the costs and benefits of MFI commercialization and its impact on mission drift. He concludes that the benefits of commercialization outweigh the costs, but recommends that MFIs remain poverty alleviation focused.

2.5 Client Targeting

There are two primary issues in client targeting: first, gender targeting (lending to women versus ending to men) and second, poverty targeting (lending to the very poor and poor versus lending to the marginally poor and non-poor).

A. Gender Targeting

Many MFIs target primarily, or exclusively, women. This practice is based on the common belief that women invest the loans in productive activities or in improving family welfare more often than men, who are assumed to consume rather than invest loan funds. Pitt and Khandker (1998) use empirical data from Bangladesh over the period of 1991-1992 to test the hypothesis that women use borrowed funds more efficiently than men. They use household expenditures, non-land assets held by women, male and female labor supply, and boys' and girls' schooling as measurement outcomes. The authors find that although the availability of microfinance positively impacts all six areas in the aggregate, all areas are significantly affected when women borrow, but only one of the six is significantly affected when men borrow. They conclude that women use borrowed funds better than men in Bangladesh microfinance programs.

Examining a related question, Kevane and Wydick (2001) use a sample of 342 MFI participants in Guatemala to analyze the assertion that male borrowers produce more economic growth than women and those women facilitate more poverty alleviation. They find no significant differences between men and women in generating business sales and a small advantage of employment generation by men relative to women. They attribute the difference between men and women to the role of women in childbearing. Underlying the emphasis on lending to women is the widespread belief that access to financial services empowers women, both financially and socially. Testing this belief, Amin et al. (1998) use qualitative and quantitative evidence in Bangladesh to show that membership in microfinance programs among other factors is positively related to women's empowerment. In contrast, Ehlers and Main (1998) analyze microenterprise development programs for poor US women and argue that the microfinance assistance is more detrimental and problematic than advocates believe. Ehlers and Main base their conclusion on the fact that few women "graduate" their business into the formal sector due to gender constraints on the type of businesses they choose to run and due to inappropriate microfinance training.

As a final set of examples, Mallick (2002) criticizes the impact of microfinance on women in society and suggests that microfinance services can result in gender conflict in Bangladesh. Hossain (2002) is quick to rebut Mallick and specifically addresses each of Mallick's assertions arguing that Mallick's analysis is premature.

B. Very-Poor versus Marginally-Poor Targeting

As mentioned earlier, one of the most significant and controversial debates in microfinance is whether and to what extent there exists a trade-off between financial self-sufficiency and depth of outreach. Integral to this debate is whether to achieve self-sufficiency. MFIs must target marginally-poor or non-poor clientele so as to capture economies of scale and cover costs. Addressing this issue, Navajas et al. (2000) analyze the outreach of five Bolivian MFIs. The authors find that most clients were near the poverty line (i.e., the marginally poor). They also find that group lenders had more depth of outreach than individual lenders, that urban poorest were more likely borrowers, but that rural borrowers were among the poorest of all borrowers.

Similarly, Servon (1997) studies three MFIs in the US and finds that they served those at the margin of the mainstream economy, not the very poor. The last three articles in this section address who participates, and who does not participate, in microfinance programs and whether microentrepreneurs are subject to credit rationing. Evans (1999) conducts an empirical examination of microfinance clients in Bangladesh. He reports that only 25% of eligible households participate and that rates of participation are higher among the poorer. Multivariate analysis indicates that lack of female education, small household size, and landlessness are risk factors for nonparticipation. Baydas et al. (1994a, 1994b) analyze credit rationing in Ecuador by MFIs. In one study (1994a), they construct and estimate a supply and demand model to analyze factors MFIs use to ration credit and find that microentrepreneurs with less profitable enterprises and less education have smaller demand for microcredit. In another study (1994b), they test for evidence of discrimination against women microentrepreneurs by formal sector lenders in Ecuador. They find that men and women have equally small probabilities of being quantity rationed for loans and conclude that gender discrimination is not widely practiced in Ecuador.

2.6 Policy and Microfinance

We use the term "policy" to refer to microfinance as a poverty alleviation strategy and to the regulatory conditions in which MFIs operate.

A. Microfinance as a Poverty Alleviation Policy

Perhaps the fundamental question for the motivational underpinnings of microfinance is whether it is a viable strategy for poverty alleviation relative to other poverty alleviation policies. Adams and von Pischke (1992) try to answer this question directly by comparing modern (1990 era)

MFIs to the failed rural credit agencies established by LDC governments in the 1960s and 1970s that not only did nothing to advance poverty alleviation but also wasted millions of dollars of public funding. After comparing the operational framework of modern MFIs to rural credit agencies, the authors conclude that the modern MFI industry is destined for failure because of the similarities between the two.

In partial support of Adams and von Pischke, Buckley (1997) "seeks to provoke critical reflection on the uncritical enthusiasm that lies behind much proselytizing of microfinance." Buckley discusses field summary data from Kenya, Malawi, and Ghana and concludes that fundamental structural changes in socioeconomic conditions and a deeper understanding of informal sector behavior are needed for microfinance to prove effective.

Schreiner (1999), Sanders (2002), and Bhatt (1999) provide support for the argument that microfinance may not be an effective poverty alleviation policy in the US. Schreiner analyzes US microenterprise programs and finds that although some programs can move some people from welfare to self-employment, it only works one percent of the time. Additionally, Schreiner shows that those who are successful in the transition have above average assets, education, experiences, and skills. Sander's tests the impact of microenterprise development programs and calls into question their effectiveness as an antipoverty strategy. Meanwhile Bhatt (1999) finds that the evidence for the impact of U.S. microenterprise programs is mixed -- some programs have worked while others have failed. Finally, Schreiner and Woller (2003) compare evidence about the effectiveness of microenterprise programs in developing countries and the US. They conclude that microenterprise development is much more difficult in the US than in developing countries, and they suggest some ways to address the challenges of US microenterprise development.

In contrast to the arguments of Adams and von Pischke, Woller et al. (1999a) argue that the current microfinance movement is very different from the failed rural credit agencies of the 1960s and 1970s, thereby making direct comparisons between the two invalid. They list several reasons why the prospects for success are better today than before. Additionally, Woller and Woodworth (2001) argue that to date, top-down macroeconomic poverty alleviation and development policies also have likewise experienced significant failures. Consequently, they argue that microfinance constitutes a potentially viable bottom-up policy option in lieu of or, preferably, as a complement to effective macroeconomic poverty alleviation and development policies. In support of Woller and Woodworth, Weijland (1999) analyzes a sample of over 4,000 Indonesian rural clusters and concludes that hyper-poor but clustered groups can serve as a seedbed for industrial development.

Other studies reach more ambiguous conclusions about the effectiveness of microfinance as a policy tool. Analyzing MFIs in Nepal, Bhatta (2001) concludes that due to the topology and extreme poverty levels in Nepal, it will be difficult for MFIs to have any meaningful impact on poverty. Nonetheless, he goes on to suggest that MFIs should expand into the hill and mountainous areas and target women so as to increase the probability of success. Finally, Snow and Buss (2001) study microfinance programs in sub-Saharan Africa and conclude that better goal-oriented assessment is needed to determine if microfinance is an effective policy for poverty alleviation.

B. Regulatory and Macroeconomic Policy Impacts on MFIs

Franks (2000) discusses macroeconomic stabilization and its impact on microenterprises. He concludes that macroeconomic stabilization can ultimately be very beneficial to the microfinance sector, although it may actually be costly in the short run. Quinones and Seibel (2000) examine the formation of social capital in the Philippine microfinance sector. They illustrate how regulatory and supervisory framework and financial innovations in MFIs have affected poor households' cooperation and support.

Tinker (2000) discusses disaggregation by social groups and microenterprise programs in the US. She then extrapolates lessons that a US planner could learn for optimal policy implications. Lowe and Talbot (2000) critique the British Small Business Service's efforts in spurring microfinance and microbusiness development. They specifically focus on how the Small Business Service can improve its policies to support provision for rural microbusinesses. Copisarow (2000) also analyzes key policy issues affecting microfinance in the UK and describes the main barriers faced by MFIs in the country. She goes on to recommend funding and operating strategies for microfinance programs operating within the current legal and regulatory UK framework. As with most issues in microfinance, the effectiveness of microfinance as a policy tool for poverty alleviation and the optimal regulatory context for MFI development are still open questions. Researching these issues has the potential to be a rich area for discovery.

2.7 Impact of Microfinance Institutions on Beneficiaries

Attempts to assess the impact of microfinance as measured by their impact on clients, their enterprises, households, and the communities in which they live. As a general rule, MFIs work toward a double bottom-line—financial and social—unlike the typical formal financial institution which works solely toward a financial bottom-line. Measuring financial returns is relatively straight-forward. Microfinance has borrowed liberally from the financial accounting and performance standards in the formal financial sector. Concepts such as return on equity, return on assets, portfolio-at-risk, and so forth are increasingly becoming the lingua franca of the microfinance industry. Measuring social return, however, is anything but straightforward. In practice, the specific impacts of microfinance are hard to pin down and harder still to measure. Impact assessments require adoption of research methodologies capable of isolating specific effects out of a complicated web of causal and mediating factors and high decibels of random environmental noise, as well as attaching specific units of measurement to tangible and intangible impacts that may or may not lend themselves to precise definition or measurement.

The difficulty and cost inherent in assessing social impact are such that most MFIs do not try to assess social impact; nonetheless, donors and policymakers have a legitimate interest in assessing the social returns to their social investments. Some knowledge of social impact is therefore necessary for MFI management and other stakeholders (e.g., donors and policymakers) to assess overall program effectiveness. (Information on financial performance alone gives an incomplete picture of program performance.)

Interest in the social impact of microfinance has led to a number of impact studies published in scholarly journals. Ten of these studies assess microfinance programs in Bangladesh. McKernan (1996) finds that program participation can exert a large positive impact on self-employment profits, while Pitt and Khandker (1998) find that program credit has a significant impact on the well-being of poor households and that this impact is greater when credit is targeted to women. Seven other studies in Bangladesh Hashemi et al. (1996); Goetz and Gupta (1996); Schuler and Hashemi (1994); Hashemi and Riley (1996); Schuler et al. (1997); Schuler et al. (1998); Steele et al. (2001) focus on the question of female empowerment.

All but one found evidence that microfinance program participation exerts a statistically significant impact on one or more aspect of female empowerment, such as contraceptive usage or intrahousehold decision-making. The sole Bangladeshi impact study failing to find significant impacts is Goetz and Gupta who find that significant portions of the women's loans were controlled by male relatives, thereby limiting the women's ability to develop meaningful control over their investment activities.

Outside of Bangladesh, published studies have assessed the impact of microfinance programs in Bolivia (Mosley 2001), China (Park and Ren 2001), Ecuador (Woller and Parson 2002), Ghana and South Africa (Afrane 2002), Guatemala (Kevane and Wydick 2001; Wydick 1999a, 1999b, 2002), Honduras and Ecuador (Smith 2002), Indonesia (Bolnick and Nelson 1990), Peru (Dunn 2001), Thailand (Coleman 1999), Uganda (Barnes et al. 1999), Zambia (Copestake et al. 2001), and in multiple countries Mosely and Hulme (1998) and Anderson et al. (2002). The findings vary considerably from study to study, suggesting that impacts are highly contextually specific.

Analyzing four programs in Bolivia, Mosley (2001) shows that assets and income increased commensurate with initial poverty levels, but also that MFI services may increase vulnerability if borrowers over-leverage. Bolnick and Nelson (1990) find that MFI participation had a positive impact on enterprises that were typically small, labor intensive and growing, although the impact was far from uniform across sectors and target variables. Copestake et al. (2001) find that borrowers who were able to obtain two loans experienced high growth in profits and household income compared to a control sample, but borrowers who never qualified for the second loan were actually worse off due to MFI collection mechanisms. Wydick (1999a) finds that upward class structure mobility increases significantly with access to credit. Using the same Guatemala data set in a subsequent study (2002), Wydick also finds that rapid gains in job creation after initial credit access were followed by prolonged periods of stagnant job creation. Dunn (2001) finds that program clients' enterprises performed better than non-client enterprises in terms of profits, fixed assets, and employment. Finally, Anderson et al. (2002) analyze 147 MFIs and finds that microfinance participation increased environmental awareness and common pool resource stewardship.

Two published impact studies explicitly assessed community, or village-level, impacts. In Bangladesh, Khandker et al. (1998) find that program participation has positive impacts on household income, production, and employment, particularly in the rural non-farm sector, and that the growth in self-employment was achieved at the expense of wage employment, which implies an increase in rural wages. Woller and Parsons (2002) estimate that a microfinance program in Portoviejo, Ecuador contributes $480,000 per year in direct and induced economic benefits to the local economy.

Other impact studies address trade-offs that need to be considered when performing microfinance impact assessments. Mosely and Hulme (1998) study 13 MFIs in seven countries (Bolivia, Indonesia, Bangladesh, Sri Lanka, Kenya, India, and Malawi) and construct an "impact frontier" describing the inverse relationship they find between outreach (depth of poverty reached) and impact. Wydick (1999b) constructs a theoretical model to analyze the economic tradeoff between future returns to schooling and the current return to child labor in Guatemalan household enterprises. He finds that in some states, microcredit increases the probability that children will attend school; however, during certain states of moral hazard, the cost of schooling may outweigh the benefits of child labor. Kevane and Wydick (2001) find that targeting microenterprise credit to poor women appears to imply a trade-off between economic growth in favor of poverty reduction and child welfare. In particular, female entrepreneurs of child bearing age create significantly fewer jobs than male entrepreneurs.

Each of the impact assessment studies cited above, with one noted exception, provide evidence of positive impacts of microfinance. Other impact assessment studies, however, fail to find significant impacts. In his assessment of Thai MFIs, Coleman (1999) finds that "naive" estimates of impact failing to control for self-selection and endogenous (non-random) program placement significantly overestimate program impacts. He generalizes this finding to other impact assessments, arguing that most impact studies neglect the issues of self-selection and endogenous program placement thus leading to systematic overstatement of impact.

Making comparisons across impact studies is greatly complicated by the contextual heterogeneity of programs assessed and the diversity of empirical methodologies used. The diversity of empirical methodologies in turn reflects the diversity in methodological options available. Hulme (2000) reviews the methodological options for doing impact assessments identifying three broad approaches: the scientific method (principally control-group surveys), the humanities tradition (ethnography and other qualitative methods), and participatory learning and action (participatory qualitative tools that include, for example, participatory rural appraisal, rapid rural appraisal, and farming systems research). He concludes that an optimal impact assessment mechanism should be a mix of the different methods for a fit between assessment objectives, program context, human resources, and timing.

Hyman (1998) also consider the issue of optimal impact assessment methods by reviewing and comparing four MFI evaluation systems. Through his analysis, he suggests improved methods for existing assessment approaches. Woller et al. (1999b) survey 73 MFIs in the US and developing countries on their impact evaluation practices. They find that the sampled institutions regularly evaluated their programs, albeit using inexpensive and unscientific methods, regularly monitored project performance, saw evaluations as vital, used findings to implement project changes, and sought formal feedback from clients. The survey findings also shed light on impediments to performing impact assessments on the role played by various stakeholders in the evaluation process. In addition to Coleman (1999, cited above), other studies address the various methodological weaknesses found in published impact studies. Karlan (2001) criticizes the common practice of omitting ex-clients from treatment groups, arguing that such an omission introduces significant risk of selection bias and survivorship bias, potentially resulting in systematic and significant overstatement of program impacts. Schreiner (2002) criticizes impact assessments of U.S. microenterprise development programs for a variety of methodological failures, including failure to use valid control groups, biased sampling, misestimation of program benefits and costs, and failure to perform true cost-benefit analyses. (Many of these criticisms are true for assessments of microfinance programs in the developing world as well.)

CHAPTER THREE

PROFILE OF STUDY AREA AND RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods used in collecting the data. It seeks to describe the population of the study, the sample and sampling techniques, and the data collection procedure and administration. A descriptive cross sectional study would be done in most of the Districts in Ashanti region to assess the impact of micro finance on the production and income distribution among the people. Looking at the size of Ashanti region, it was discovered that not all beneficiaries of microfinance and financial institutions could be interviewed. It was therefore found appropriate to select samples from the known ones.

3.1.1 Historical Background

The city of Kumasi was founded in the 1680's by King Osei Tutu I to serve as the capital of the Asante State (Fynn, 1971). Given its strategic location and political dominance, Kumasi developed into a major commercial centre with all major trade routes converging on it (Dickson, 1969).

However, it came under the influence of the British rule in 1890 (Adu Boahen, 1965). With time the city began to expand and grow making it second only to Accra the capital of Ghana in terms of land area, population size, social life and economic activity. Its strategic location also endowed it with the status of the principal transport terminal and assured its pivotal role in the vast and profitable distribution of goods in the country and beyond.

Its layout and greenery accorded it the accolade of being the "Garden City of Ghana". From the three communities of Adum, Krobo and Bompata, it has grown in a concentric form to cover an area of approximately ten (10) kilometers in radius. The direction of growth was originally along the arterial roads due to the accessibility they offered resulting in a radial pattern of development. The city is a rapidly growing one with an annual growth rate of 5.47 percent (Regional Statistical Office, Kumasi). It encompasses about 90 suburbs, many of which were absorbed into it as a result of the process of growth and physical expansion. The administrative map of Ghana showing Kumasi is presented in Appendix 1.

3.1.2 Location and Size

Kumasi is located in the transitional forest zone and is about 270km north of the national capital, Accra. It has an area of 254 square kilometers and is situated between latitude 6.35° – 6.40° and longitude 1.30° – 1.35°, with an elevation which ranges between 250 – 300 metres above sea level. The unique centrality of the city as a traversing point from all parts of the country and its status as a brisk administrative and commercial centre makes it a special place for many to migrate to. The Metropolis attracts a number of migrants from several parts of Ghana and neighboring African countries such as Togo, Burkina Faso, Mali, Nigeria, Ivory Coast and abroad. Migration has been a key contributing factor to the phenomenal growth of 60.8 percent and 53.1 percent of the city's population growth in 1960 and 1970 respectively and in 2000 it rose to 48.6%.

3.1.3 Conditions of the Built Environment

The passage of the Town and Country Planning Ordinance, Cap 84, marked the genesis of organized development of Kumasi in 1945. The Plan designated Kumasi as the "Garden City of West Africa" and declared the city among other regional capitals as a statutory planning area. This and other Planning Schemes (the Kumasi Outline Planning Scheme implemented from 1963 to 1988) sought in broad terms to provide the framework for Social, Economic, Physical, Infrastructure and Environmental growth of the city.

It is estimated that 48 percent, 46 percent and 6 percent of the Metropolis are urban, peri-urban and rural respectively, showing a fast urbanization rate. In terms of housing types the city has been categorized into high-income area, government area, indigenous areas and tenement area. It is also a home to a number of lumber and saw milling firms, two breweries and a bottling company along the Anloga – Ahinsan – Kaase stretch. It has a total of 846km of road network but much of it remains unpaved.

The population of the Central Business District comprising Adum, Asafo and Asante New Town continue to reduce over the years. According to the census reports, Adum recorded 12,991 in 1970, 9,693 in 1984 and 8,016 in 2000. On the other hand areas such as Ayigya, Dichemso and Tarkwa Maakro, which were small communities in 1960 and 1970, have grown into densely populated residential areas with 20,000 – 40,000 people. Areas comprising the CBD therefore continue to reduce in terms of human numbers whereas the population in the new developing areas increases. This is accounted for by the mere reason that residential accommodations in the former are being converted into commercial use.

The high rate of population growth of 5.47 percent coupled with the high migrant numbers has outstripped the rate of infrastructure development and service provision. Most of the facilities have exceeded their carrying capacities. According to Adarkwa and Tamakloe (2001), the land use pattern in Kumasi is characterized by the following:

- The sudden upsurge of suburban development in Kumasi, which could be a reaction to the increased human activities and over-concentration of various social, economic and employment opportunities in the Central Business District (CBD), defined as Adum, Bompata and the central market;
- Most of the suburban areas are generally service deficient and as a result some residents still depend on the CBD for various services. About 44.3 percent of all trips in the city have either their origin or destination in the CBD; and
- The problem of over-concentration of commercial and business activities in the central area has been exacerbated by the extent to which traffic congestion in the city centre has become worse partly because of the increase in the number of vehicles and the use of private cars and taxis as a predominant mode of transport.

The Kumasi Metropolis has in recent times been experiencing both human and vehicular traffic congestion, particularly in the Central Business District (CBD) due to its centrality in the region and in the country. As a result of the dominance of the distributive trade in the city's economy, the CBD and all the principal streets have been taken over by street traders. The erection of wooden structures including kiosks and metal containers along the streets and on any available space is a common sight and these have greatly blighted the beauty of the city. Plans are however afoot to develop some of the satellite markets to keep the street traders off the CBD and principal streets.

3.1.4 Population Size and Growth Rates

The 2000 Population Census puts the population of Kumasi at 1,170,270 making it the most populous district in the Ashanti Region, with a 2006 projected population of 1,625,180 based on a growth rate of 5.4 percent per annum (refer to Table 3.1). Kumasi has attracted such a large population partly because it is the regional capital, and also the most commercialized centre in the region. Other reasons include the centrality of Kumasi as a nodal city with major arterial routes linking it to other parts of the country and also the fact that it is an important educational centre.

Table 3.1: Population of Kumasi (1948 – 2006)

Area/year	1948	1960	1970	1984	2000	*2006
Kumasi	81,870	218,172	346,336	487,504	1,170,270	1,625,180
Ashanti	1,109,130	1,481,698	2,090,100	2,948,161	3,612,950	3,899,227
Nation	-	9,726,320	9,632,000	12,296,081	18,912,079	22,225,625

Source: Population Census Reports (1948, 1960, 1970, 1984 and 2000) *Projected

The growth of industries and the large volume of commercial activity in and around Kumasi as well as the high migrant number may account partly for the relatively high urban population. It has been estimated to have a daytime population of about 2 million. The population has grown rapidly over the inter-censal periods as can be seen from Table 3.1.

3.1.5 Age and Sex Structure

The age structure of the population in the metropolis is skewed towards the youth (2000 Population census). The highest proportions of the population are in the age cohorts 0 – 4 years (13.2 percent) and 5 – 9 years (12.4 percent). Cumulatively, 39.9 percent of the population is below 15 years, in contrast to other districts, which range from 40 to 47 percent. This may be an indication of a slow, incipient decline in fertility. There are more males (50.2 percent) than females (48.8 percent) in the metropolis.

There is also a predominantly active population with an estimated 48 percent within the working age. This high figure is not surprising in view of the fact that most of the immigrants into the city are those coming to seek jobs. This therefore calls for employment policies to focus on the creation and expansion of job avenues and the creation of an enabling environment especially in the informal sector.

3.1.6 Population Density

The Kumasi Metropolitan Area has a population density of 5,419 persons per sq. km. The high population density is because KMA has the second largest economy in the country after Accra, which tends to attract people from all walks of life to the region.

3.1.7 Household Sizes/Characteristics

The average household size in the Metropolis is 5.1 with an average household per house of 3.4. This relatively large number of households per house is due largely to the large population in the metropolis. There is a dominance of single person households in the metropolis. For instance, single households alone constituted 21.1 percent and 23.3 percent of all households in the metropolis in 1984 and 2000 respectively. The dominance of single person households, especially among the male population in the metropolis, could be attributed to a number of cultural, administrative and economic factors. Culturally, some Asantes who dominate all tribes in the metropolis often prefer living in separate houses from their families. Also, most immigrants who arrive in the city often leave their families behind until they are settled.

3.1.8 Role of Kumasi in the Regional and National Economy

The unique location of Kumasi as a traversing point from all parts of the country makes it a special place in terms of the social, economic, cultural and political life of the country. As a result of its central location, vibrant market, and rich culture and history, the metropolis serves as a "popular place" accommodating a high migrant population comprising people from almost all the ethnic groups and regions in the country. Kumasi is also endowed with social services which include education, health and tourism services. It has the most important educational and health institutions in the region which are run by government, private and religious bodies.

Kumasi is recognized as the focal point of international visitor interest, and the central business and communication crossroad of the nation. It is estimated that 50 percent of tourists visiting

Ghana, travel to Kumasi to see the treasures of the city and its environs. The city has the second largest airport which caters for internal flights. Kumasi is a budding industrial center with formal industries in timber, food processing and soap making. It also has a thriving informal sector dominated by the indigenous and foreign traders (KMA, 2002-2004).

The commercial activities of the city cannot be underestimated. It has the largest single market in Ghana, the central market which serves both the inhabitants of the city as well as people from other sides of the country and those from the neighbouring countries such as Mali, Burkina Faso, Togo and the Ivory Coast. Other prominent markets in the city are Asafo and the Asawasi markets, in additions to various satellite markets in the suburbs.

Major transport routes are the Kumasi – Accra, Kumasi – Cape Coast and links to other places in Ghana as well as the neighbouring countries such as Ivory Coast and Burkina Faso. All these routes link up with the producing and consuming centres of Ghana. It is estimated that the metropolis has about 430 kilometres of primary and secondary roads. About 60 percent of this figure has been tarred with asphalt (KMA, 2002-2004).

3.1.9 Commercial Development in Kumasi

The development of commerce in Kumasi dates far back as the period of inception of the settlement when it benefited from its location on the North-South trade route; and later when it grew in importance as a major collection and distribution centre trading in gold dust, ivory and kola, manufactured products, slaves, livestock and sheabutter. The present day development of urban commerce has only been significant particularly during the aftermath of the second world war when there was capital from the economically advanced countries to the developing territories of Africa. During this period, there were two categories of traders and Rouch (1954) describes one group the 'squatters' who were made up of 3612 out of 4500 traders in Kumasi and who characteristically had no premises and paid a daily license fee of 6d (six pence) per load. At this time, it was also evident that foreigners dominated this category, particularly the Yorubas who formed the largest group. They were organized spatially in the market area with location characteristics showing an orientation towards areas with relatively heavy traffic movement. The other group of traders operated in definite premises which varied according to scale of operation and were dominated by both African and European traders. Whereas the latter group was better organized spatially, the former group was largely unorganized and operated in pocket areas in the city.

3.1.10 The Role of the Informal Sector in the Economy of Kumasi

In the Kumasi Metropolitan Assembly, the informal economy has assumed an important dimension in the development of the economy. For instance, in 1970, the informal sector employed about 54 percent of the labour force in Kumasi. This increased to about 65 percent in 1990 and is currently pegged at about 75 percent of the labour force in the Metropolis, and of this, self employment accounts for about 65 percent of the total employment (Boapeah, 2001: King and Dinye 2002).

The role of the informal economy is not limited to employment generation alone, but serves as an important source of revenue for local and central governments. In 1985, for example, the then City Council earned ¢61 million from the informal sector out of a total revenue of ¢105 million earned, accounting for over 61 percent of total revenue generated (Boapeah and Osei-Adu, 1987). This revenue came from sources including fees, rates, licenses and fines. The potential of revenue generation of the informal sector has been estimated at about 60 percent of total revenue earned by KMA, including the additional revenues stemming from the District Assembly Common Fund (DACF) that was established in 1992. In 2001 alone, about 50.5 percent of KMA's revenue came from internal sources of which the contribution of the informal sector was a little over 80 percent (King and Dinye, 2002). The contribution of the informal economy therefore is substantial. The sector also contributes greatly to the acquisition of skills through the apprenticeship system of training. Many of the youth and school leavers learn on-the job as apprentices from tradesmen in the informal sector.

The informal sector in the Kumasi Metropolitan Area (KMA) can be categorized into three forms namely: petty commodity production, petty commerce and urban agriculture (Boapeah, 2001). The largest sub-sector however is commerce which accounts for about 60 percent of total employment of the informal economy in Kumasi (Boapeah, 2001: King and Dinye, 2002). This is followed by petty commodity production and urban agriculture respectively. Until the last two decades, trading was mostly confined to the markets in the metropolis, but economic liberalization and rapid urbanization have led to a significant increase in street trade as an overspill from established markets (Owusu and Lund, 2004). There is therefore a proliferation of street trading activities in the city.

3.2 Research Methodology

Looking at the size of Ashanti region, it was discovered that not all beneficiaries of microfinance and financial institutions could be interviewed. It was therefore found appropriate to select samples from the known ones.

3.2.1 Target Population

The target population for the survey was Microfinance Institutions in Kumasi and their small and petty traders and individual beneficiaries. Four microfinance and Savings and Loans Companies were randomly selected based on their responsiveness to the researcher and their willingness to answer the questionnaire used for the study. Beneficiaries of these institutions who operated petty trade, artisans, small and medium scale enterprises were selected.

Table 3.2 Lists of Microfinance & Savings and Loans Institutions in Kumasi

Microfinance & Savings and Loans Institutions
Easy Investment Foundation
Garden City Savings and Loans Ltd

First Allied Savings and Loans Limited
Women's World Banking
Pacific Savings and Loans Limited
Opportunity International Limited
Richgold Savings and Loans Limited

3.2.2 Sample Determination

The sample size of the beneficiaries was taken from a population of 45,786. The sample size determination for both the savings and loans companies and the beneficiaries is as shown below;

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

n = sample size N = population α = margin of error; $\{\alpha = 0.1\}$

The institutions used are First Allied Savings and Loans Limited, Women's World Banking, Easy Investment Foundation and Garden City Savings and Loans Limited. Using the above formula one hundred (300) beneficiaries were randomly selected for the study. The sample size from each institution was determined by multiplying the proportion of the population of each institution to the total population by the total sample size for the study.

Table 3.3 Sample Size Determinations

Savings and Loans Institutions	Population	Proportion (percent)
First Allied Savings and Loans Limited	24266	159
Garden City Savings and Loans Limited	14652	96
Easy Investment Foundation	3205	21
Women's World Banking	3663	24
Total	**45,786**	**300**

Source: Field Survey, 2008.

3.2.3 Data for the Survey

Primary data for the survey was collected. The interview schedule was administered to 300 beneficiaries who are artisans, businessmen and women, market women and individuals who were clienteles to the microfinance and Savings and Loans Institutions. The interview sought to find out their pattern of borrowing and its relation to income level and production, the services they were seeking from their respective institution and how relevant the Business Advisory Services were to them vis-à-vis their capacity to utilize the loans. It was also to find out the problems they faced in doing business with the institutions.

3.2.4 Data Collection Techniques and Tools

Structured questionnaires consisting of both open and close-ended questions were administered to the beneficiaries of microfinance. These people included those in carpentry, bread baking, batik and tie and dye, basket weaving, market women etc. Because some of the above mentioned beneficiaries are illiterate, it would become necessary to explain the content of the questionnaire in the local dialect to them and helped them fill in the questionnaire. The questionnaire was designed to collect information on demographic characteristics, the nature of businesses engaged; sources of microfinance credit facilities; difficulties in assessing the facilities and suggestions from the respondents.

3.3 Research Design

The case study approach was used to carry out the study. The case study method was used for the study. It is mostly used for an intensive study of an individual unit which in this case is individuals and privately owned enterprises stressing factors in relation to their working environment. By using this approach, a single entity or phenomenon was explored bounded by time and activity. Detailed information was obtained using a variety of data collection procedures during a sustained period of time (Agyedu et al, 1999:46). The reasons for this method stem from the fact that the study required multiple sources of evidence and the issue been investigated into is a contemporary phenomenon which is ongoing and for which the researcher has little control over. This is because it will enable the researcher to study the pattern of beneficiaries` borrowing over time with the selected institutions which have operated over a considerable number of years in Kumasi.

3.4 Sampling Design

Afterwards the simple random sampling technique was used. With the simple random technique, the concentration was on individual units of enquiry. The reason for the use of the simple random sampling method was that every element or stakeholder has an equal chance of being selected from the population. However, the method has some form of disadvantages which include the selected items being subject to the full range of variations and the results being very unrepresentative.

3.5 Analytical Tool

In terms of data processing, a number of techniques were used. Data obtained was edited, coded and then tabulated. Editing was done with the aim of detecting and eliminating error to ensue clean and reliable data. Coding was also done by classifying questions into meaningful categories in order to bring out essential patterns to inform research questions posed. Data was then presented in the forms of tables among others to facilitate the analysis.

In terms of data analysis, both the quantitative and qualitative techniques were used. Data disaggregation, cross-tabulation and statistical application techniques were used in analyzing responses. The reason for the combination of techniques was to ensure that the generalization would be based on credible and reliable means of analyzing data from the field. The SPSS software was used in analyzing the data obtained from the field.

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

The theoretical basis of this study, and the research methodology were discussed in the previous chapters. This chapter however concentrates on the actual research findings and discusses data on informal sector operators as was obtained from the field survey. Regarding the informal sector operators, data gathered and presented includes the demographic and social characteristics, their perceptions and knowledge of microfinance and the impact the loans they had received had on their businesses.

4.1.1 Sex Distribution of respondents

The general trend in Ghana's population structure as well as that of the Kumasi Metropolis reveals the dominance of the female population over the male. For instance the 2000 Population and Housing Census puts the gender split as 48.8 percent male and 51.2 percent female for the KMA and the national figures as 49 percent male and 51 percent female (GSS, 2000). Data obtained from the survey confirmed this situation and revealed that the females constituted about 73 percent while the remaining 27 percent were males (refer to Table 4.1).

It must be stated that in the informal economic activity, females mostly predominate and they are the people who are often seen moving around from place to place selling their wares. This finding is similar to many studies worldwide (Blanc, 1998; Ngaware and Ngaware, 2004; King, 2005; Iyenda, 2005), but differs from Bromley's (1978) finding in Cali where 67 percent were men and 33 percent were women.

Table 4.1: Gender Status of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FEMALE	220	73.3	73.3	73.3
	MALE	80	26.7	26.7	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.1.2 Age Distribution of Respondents

The age structure of the population in an area provides a picture of the level of age dependency in the economy and also serves as a determinant for measuring economic activity of the population. From the survey, the ages of the informal small scale operators interviewed reflects a high rate of the population who are economically active or the potential labour force engaged in some form of employment.

Out of the 300 respondents who have acquired a loan before, 27 percent fell within the 20 to 30 age group while 20 percent were within the age group of 31 to 35 years. About 16.7 percent of the respondents to this study were aged between the age group of 36 to 40 years and 36.7 percent fell within the 41 to 60 age group. The highest percentage of respondents who were beneficiaries of at least one of the over five micro-credit schemes found in the Metropolis fell in the 41 to 60 age group. The least percentage of respondents who have acquired a loan before fell in the age group of 36 to 40 years. This age structure is very much accepted and goes a long way to confirm earlier studies that have been undertaken by different authors on the informal sector in the Kumasi Metropolis. For instance, Solomon-Ayeh, 2008 recorded about 35 percent of the informal sector operators being within the 30 to 40 years age group as against 37 percent for this particular study.

Table 4.2: Ages of Respondents

	Ages	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	80	26.7	26.7	26.7
	31-35	60	20.0	20.0	46.7
	36-40	50	16.7	16.7	63.3
	41-60	110	36.7	36.7	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.1.3 Marital Status

Marital status reflects a person's level of commitment, responsibility and mobility among other factors. Knowledge about the marital status of street trader was necessary to ascertain their level of commitment and responsibilities to themselves, their families and to society as a whole. In general, people who are married have high financial and social responsibilities to meet, and are less mobile and hence have a high tendency of being committed to government policies.

The assessment of the marital status of the respondents was very important given that it is a widely held view that married people are more stable and responsibly and hence eager to ensure that there is development in whatever area or business activity they find themselves. It also ties in with the issue of dependency by assessing the number of dependents of these informal sector operators. From the survey, it was realized that about 56.7 percent of the respondents were married with about 33 percent being single whiles 7 percent of them were widows. About 3.3 percent of the 300 respondents had being divorced. This presupposes that the Kumasi Metropolis is a relatively stable one with a high sense of duty and responsibility exhibited by about 60 percent of the citizenry.

Table 4.3: Marital Status of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MARRIED	170	56.7	56.7	56.7
	SINGLE	100	33.3	33.3	90.0
	WIDOW	20	6.7	6.7	96.7
	DIVORCED	10	3.3	3.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.1.4 Number of Children

A further analysis of the level of dependents within and among the sampled informal sector operators revealed that all 300 had at least one child and supported some family members which in most cases were the mothers. From the study, about 63 percent had two or less children while the remaining 37 percent had more than two children. This has an implication of the financial burden on most respondents and hence their inability to save enough money to expand and diversify their business activities.

Table 4.4: Number of Children

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<=2	190	63.3	63.3	63.3
	>2	110	36.7	36.7	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.1.5 Level of Education

Education is a key item in development and this is reflected in the quality of a country's human resource. It also determines the level of development and the productivity of a country's human resource and their understanding and appreciation of government policies and byelaws. It is also assumed that a person's level of education reflects the kind of job avenues available to that person. In Ghana, educational qualification is frequently used for job placements, thus people with high level of education, for example up to the tertiary level have a high tendency of working in white or blue colour jobs in the formal sector while those with lower educational qualifications normally find themselves in menial jobs, petty trading and farming in the informal sector (Ninsin, 1991).

The Table below presents the educational level of the business men and women who had sourced for funding from the available micro-credit institutions. Majority (about 47 percent) of the respondents had obtained education only up to the senior secondary school level which by Ghanaian job placement standards meant that these respondents were not likely to get employment in the formal sector. About 33 percent had being educated to the tertiary level, that is, mostly teacher training and other vocational status. Also, about 17 percent of the respondents did had middle school leaving certificate whiles to about 3 percent their highest educational level attained is the primary level education. These findings are in line with that of Bromley (1978) who found that 25 percent of the street traders in Cali had three years of primary education while only about 5 percent had any post primary education.

Even though it may appear implausible that an illiterate would be able to run a business, the situation in the informal sector demonstrates that it is possible if they have acquired the necessary skills, as indicated by Richardson (1984) and where the issue of survival is at stake. This indicates that no matter one's educational level anyone can function and be involved in the informal sector.

Table 4.5: Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	PRIMARY	10	3.3	3.3	3.3
	MIDDLE	50	16.7	16.7	20.0
	SECONDARY	140	46.7	46.7	66.7
	TERTIARY	100	33.3	33.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.1.6 Occupation of Respondents

From the survey, it was realized that about 40 percent of the respondents were traders who really needed whatever help they could master from every quarters. Civil and public servants and other salaried workers constituted about 17 percent while 40 percent of them were private workers such as hairdressers, seamstress, and barbers. Farmers constituted about three percent of the respondents. The small scale nature of these activities greatly limits their ability to source from formal loans and hence the use of funds mobilized from some traditional sources such as borrowing from family and friends, personal savings and private money lenders who charge huge interests but do not require any formal arrangements. These are the caliber of persons who form the response base for this study.

Table 4.6: Occupation of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FARMER	10	3.3	3.3	3.3
	PUBLIC WORKER	50	16.7	16.7	20.0
	PRIVATE WORKER	120	40.0	40.0	60.0
	TRADER	110	36.7	36.7	96.7
	BUSINESS MAN	10	3.3	3.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.2 Perception and Business Profile of Respondents

This section tries to establish the knowledge about the microfinance activities and how the beneficiaries themselves perceived these activities to be impacting on their businesses.

4.2.1 Type of Business Activity

The notion that there are more informal activities undertaken in Kumasi than in any other place in the country was confirmed by the survey results, as about 53 percent of the respondents were into the buying and selling (trading) of consumer and non-consumerable goods and services. The proportion of respondents who were engaged in farming activities as a business venture was about 7 percent with about 33 percent being involved in production activities most of which were artisans and some home-based activities such as baking. There were also, about 6 percent of the respondents who were engaged in not one specific business activity.

As pointed out in chapter 2, opponents to Savings and Loans argued therefore that microfinance cannot cater for jobs that are not there. Thus by financing mostly trading activities, which may not have any employment generation potential, then the employment that microfinance expected to generate is an illusion. Sustainability of such enterprises is even questionable since most enterprises go back to square one as they cannot sustain themselves in any way unless another loan is advanced to the enterprise. Thus the borrowing – repayment cycle of small and medium scale enterprise in the informal sector continues.

Table 4.7: Type of Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FARMING	20	6.7	6.7	6.7
	PRODUCTION	100	33.3	33.3	40.0
	TRADING	160	53.3	53.3	93.3
	OTHERS	20	6.7	6.7	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.2.2 Length of Involvement in the Enterprise/Business

About 33 percent of the respondents had been involved in their activity for not more than six months while 3 percent had been engaged in the business for between six months and one year (refer to Table 4.8). From the survey, it was revealed that about 23 percent had been involved in the business for more than five years. For instance, one woman who had taken over her mother's cloth trade had been in the business for over 35 years. The majority of the informal sector respondents (40 percent) had between one year and two years working experience in the business environment. This situation seems to suggest that business is stable and that informal sector traders had acquired some experiences.

Table 4.8: Duration In Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<= SIX MONTHS	100	33.3	33.3	33.3
	>SIX MONTHS<=1 YEAR	10	3.3	3.3	36.7
	> 1 YEAR <= 2 YEARS	120	40.0	40.0	76.7
	>5 YEARS	70	23.3	23.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.2.3 Frequency of Accessing Loans

Interestingly, about half of the respondents were first time loan receivers who obviously for reasons of establishing and expanding their businesses and the fact that it is very difficult to source for funds through their own means have decided to fall on these micro-finance institutions. For about 40 percent of the respondents, they have sourced and secured loans from these micro-finance institutions for not more than 4 times but more than once. For these groups of business persons, they have tasted the opportunities that loans give and have actually benefitted from the previous loans that they obtained and so would want to secure other loans. About 10 percent of the respondents have secured loans for more than five times. This gives an indication of their ability to repay the loans on time and hence the willingness of the microfinance institutions to give them further assistance in the form of credit.

Table 4.9: Number of Times of Access to Loan(s)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FIRST TIME	150	50.0	50.0	50.0
	2-4 TIMES	120	40.0	40.0	90.0
	5-10 TIMES	30	10.0	10.0	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.2.4 Perception on Difficulty in Accessing Loan

To most of the respondents, that is, about 63 percent there was no difficulty in accessing loans from any of the micro-credit institutions. This is because now the funding environment is very friendly to businesspersons and one only needs to be willing and must show the ability to pay back on time. The remaining 37 percent of the respondents were of the view that there was some difficulty in the process of securing loans given the number of microfinance institutions one had to visit before getting the loan and sometimes the number of times you would go to the institution. However, notwithstanding these difficulties, all the respondents were in agreement that the presence of these micro-credit institutions has really made loans accessible for business expansion.

Table 4.10: Difficulty in Accessing Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	110	36.7	36.7	36.7
	NO	190	63.3	63.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.2.5 Perception on Difficulty in Processing Loan

In all instances especially among the saving and loans institutions, loan processing starts with savings. Prospective loan clients are made to start saving with the institutions for a stipulated time before a loan is granted. After completion, application forms are filled and within 2-3 days loans are granted. Repeat loans may take a maximum of 2 days. From the survey with regards to all microfinance, about 70 percent of the respondents were of the view that processing of loans was very difficult.

Table 4.11: Difficulty In Processing Of Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	210	70.0	70.0	70.0
	NO	90	30.0	30.0	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.2.6 Source of Finance

It was not surprising majority of the respondents, that is, 73 percent responded that the loans were not the main sources of finances for business. They cited sources such as family and friends and personal savings as being areas for receiving loans. This is because of the small-scale nature of their businesses. Even though these sources are limited in the amount of funds they can give, their reliability is very much assured. However, to the remaining 27 percent these loans from the micro-credit institutions are the sole sources of funding for the expansion of businesses.

Table 4.12: Whether Loan is Only Source of Finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	80	26.7	26.7	26.7
	NO	220	73.3	73.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.3 PURPOSES OF MICROFINANCE LOANS

Studies have shown that most microfinance loans are sometimes taken for purposes other than the intended purpose of establishing or expanding ones' business. This section seeks to analyse the purposes of which these loans are put into.

4.3.1 Purposes for Securing the Loans

From available literature, the main reasons for the sourcing of these loans are to expand existing businesses and establishing new ones. From the survey, it was realized that about 86 percent of the respondents had secured the loans for the expansion of their business activities and the remaining 14 percent wanted to use it for the establishment of new business entities. These loans were mostly used for the intended purposes only that there were some instances when some percentage of the credits were used for the upkeep of the family since the period within which they start making profits was a bit long.

Table 4.13: Purpose of the Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NEW BUSINESS	40	13.3	13.3	13.3
	EXPAND BUSINESS	260	86.7	86.7	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.3.2 The Sufficiency of the Amounts Received

It was realized that some of the applicants were given amounts lesser than what them require. This can lead to default. This is because it is assumed that loan amount requested is in accordance with business needs that client requires towards business. About 47 percent of the respondents were of the opinion that the amounts received as loans from these micro-credit institutions was quite sufficient for the kinds of business activities they wanted to use it for. However, the majority (53 percent) thought that they should have been given more than they obtained. And hence they could not achieve the purpose for which they wanted the loans in the first place.

It therefore suggests that there could be other factors that come into play to determine the loan amount for a client which needs to be considered. The most important is the cash flow of the business as well as that of the household and time of the business cycle. All micro credit schemes, be it government or private should inculcate the habit of savings as a precondition not just opening of accounts as it happens mostly in government micro credit schemes.

Table 4.14: Whether Amount Given is Sufficient

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	140	46.7	46.7	46.7
	NO	160	53.3	53.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.3.3 Period of Loan

An assessment of the period for loan was undertaken to ascertain the length of time it took to repay the entire loans from the micro-finance institutions. About 37 percent of the respondents said that their loans were taken for a period less than six months while 53 percent of them expressed the view that they got their loans for a period between six and twelve months period. The minority that is 10 percent obtained their loans for a period more than a year. This period is different from each micro-credit institution.

Table 4.15: Period of Loan Request

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<= 6 MONTHS	110	36.7	36.7	36.7
	>6 MONTHS<=1 YEAR	160	53.3	53.3	90.0
	>1 YEAR<=3 YEARS	30	10.0	10.0	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.3.4 Favourability of Loans Terms to Beneficiaries/Business

The terms that come with the loans are varied based on which institution is granting the loan request. To about 40 percent of the informal sector operators interviewed for this study, even though the terms of the loans was not seen to be in the interest of their businesses, they still had to go on with it because they had virtually no other option left and since they were in need of it had to close their eyes to the unfavourable terms for the loans. Some of these unfavourable terms were the short grace period given before the commencement of paying back the loans. The majority (60 percent), however, were of the views that the terms for the loans were quite favourable and friendly to their business needs.

Table 4.16: Whether Terms of Loan is Favourable to Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	180	60.0	60.0	60.0
	NO	120	40.0	40.0	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.3.5 Ability to Abide by the Terms of the Loans

From the survey, the proportion of the respondents who had being able to abide by the loan terms were about 53 percent higher than the percentage of them who said the terms of the loans were not favourable. Only about 23 percent of the respondents had not been able to abide with the loan terms, all of which were included in those who said that the terms for obtaining the loans were unfavourable to their business aspirations.

Table 4.17: Whether Respondent Is Able To Abide By Terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	230	76.7	76.7	76.7
	NO	70	23.3	23.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.3.6 Perception on the Level of Interest

One of the problems that most respondents had with the micro-credit institutions was the high interest rates that these financial institutions put on the loans. This issue which was obtained from literature was also confirmed by about 87 percent of the respondents and was the major reason given for their request that the grace period given before paying back begins should be increased. Hence it was not surprising that 90 percent of the respondents thought that the high interest rates was having huge negative impacts on their businesses as they had become perpetually dependent on these micro-credit institutions for funding anytime they wanted to do any business.

Table 4.18: Whether Interest Rate Is High

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	260	86.7	86.7	86.7
	NO	40	13.3	13.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.4.1 Effect of Loan on Living Standard

The standard of living of an individual is determined by his or her income level. The living standard of an individual is bound to improve if his/her income level is higher. A realization of profit in a business in turn leads to an improvement in the standard of living of the person involved in the business as his/her income level increases. It was therefore not surprising to establish that the living standard of 86.7 percent of the respondents improved after injecting loan into their business. The standard of living of 13.3 percent of the respondents did not improve after obtaining loans for their businesses.

Table 4.19: Any Improvement In Living Standard After Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	260	86.7	86.7	86.7
	NO	40	13.3	13.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.4.2 Perceived Impact of Microfinance Operations on Beneficiaries

According to the survey the effect of their affiliation with their respective institutions has been encouraging. Accordingly, 68 percent of the respondents reported that the impact of the operations of the Microfinance and Savings and Loans Institution has been very good whilst 32 percent reported that it has been good. The only reason given was the fact that they have been able to secure loans from these institutions which was very difficult or impossible to obtain from the formal banks.

4.4.3 Effect of Loan on Beneficiaries/Business

It is the expectation of every business operator that his/her business grows or expands after injecting some amount of capital into it. It is very important that a growth is realised in the business after injecting capital into it since capital obtained from a loan must be paid back. A survey was conducted to find out whether the businesses of the respondents grew after the acquisition of loans, and it was realised that the businesses of 73.3 percent of the respondents experienced a growth after the loans while 26.7 percent of the respondents did not realised a growth in their businesses.

Table 4.20: Whether Business Has Grown After The Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	220	73.3	73.3	73.3
	NO	80	26.7	26.7	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

4.4.4 Income/Profit after Loan

It is the aim of every business to make a profit of the capital, which is put into it. Profit is an indication of the growth of business. In the survey conducted, out of the 300 respondents interviewed, 86.7 percent realized a profit after obtaining loans for their businesses while 13.3 percent of the respondents did not realized any appreciable income after obtaining loans for their businesses.

Table 4.21: Any Appreciable Income/Profit After Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	260	86.7	86.7	86.7
	NO	40	13.3	13.3	100.0
	Total	300	100.0	100.0	

Source: Field Survey, 2008.

It could be realized that lack of credit seems to be the major constraint facing the entrepreneurs of small and medium scale enterprises in the informal sector in Ghana. Issues that bother on effective management practices, capital accumulation through their own effort, simple book keeping, and a host of others do not seem to be a problem to them. None of the Savings and Loans Institution had assessed the impact of their services on their beneficiaries. This makes it difficult for the Savings and Loans to actually know the needs of their clients and to develop innovative products and services that meet their needs.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 Introduction

This chapter discusses the finding from the survey analysis. This chapter builds up from the previous one by looking at the findings obtained from the analysis of the field data in the light of the research questions as well as the objectives of the study. This chapter brings out the key findings of the study

5.2 Findings

From the survey the following findings were made:

- **Credit Need Assessment of Enterprise**

Loan amounts that were granted were only based on the request made by a client and what the microfinance institutions were expecting in return with regards to interest. There were no analyses carried out to determine the credit needs of the business vis-à-vis the repayment capacity of the business.

- **Timing of Loan**

Loan was granted with no regard to business cycle of a particular enterprise. This is due to the fact that there were normally no information available in the public domain with regards to the activities of these businesses in the informal sector. Thus loan may be given at times when a particular business is experiencing recession. This may bring a lot of hardship on the clients with respect to loan repayment therefore becoming a disservice to the clients.

- **Human Resource Development Towards Good Management Skills**

Capacity building for clients was not identified with any one of the microfinance Institutions. The so-called training offered was hammering on the prompt payment of loans by clients. Thus the other facets of microfinance that is expected to put the entrepreneurs on a sound footing to effectively run their businesses were missing. Inspite of the willingness of some of the clients to pay for training in business advice and citing the need for proper management skills as been of more importance to them, there seems to be no place for them other than that of their associations they belong. This suggests that the microfinance Institutions have not actually identified the needs of their clients. Moreover, the interactions that occur are mainly between the clients and mobilizing officers who do not have the requisite technical know-how to ender business advisory services to the clients. Furthermore, there were no well developed training or modules to carry out such services. There has never been any organized training by an established public institution such as the National Board for Small Scale Industries to educate entrepreneurs in the informal sector.

- **Interest on Savings**

It was clear from the study that respondents did not receive interest on their savings in the cases savings and loans applicants. It is believed that if a Savings and Loans Institution demonstrates the payment of interest on savings, it will encourage its clients not to see their savings only as collateral security but a way of investment that will earn them a return. By this they may save whenever they have excess liquidity.

- **Access to Credit**

The Microfinance Institutions made loans available to clients which would have been very difficult with the formal financial institutions that may require landed property with correct supporting documents. This enabled clients to have good bargain once they had cash readily available to transact business.

- **Capital Accumulation**

Surprisingly, many of the clients did not see saving as a service been offered to them by their respective institutions. It was realized that saving was seen as a precondition for credit such that, apart from the first loan, it does not matter how one saves. Most people therefore only make bulk payment which was used as security. The real understanding and benefits of saving was missing as savings was being used as a "bait" for credit in the savings and loans institutions.

According to staff off these institutions a client stops saving whenever he or she decides not to continue taking the loan. The clients normally use their savings to settle any outstanding balance in such instance. Thus net savings always very small or zero after finishing a particular loan cycle.

It was also identified that no interest was paid on savings by the institutions. This suggests that whatever loan is given has a component being the savings belonging to the client. Clients therefore end up paying interest on their own savings. This covers as de-motivating factor such that they would not want to deposit more in their accounts even if they have the capacity to do so on the assumption that it will be considered as boosting security towards obtaining a repeat loan.

5.3 Complaints of Beneficiaries

- Grace Period – According to the respondents, the grace period that they enjoy before they start to pay back the loans was too short. This according to them put a lot of pressure on them since they will have to resume payment the day, a week or month from day of disbursement. For those who pay on daily basis they are not able to turn over the loan well enough.

- Loan Term – The six months period that is given to finish loan payment is short and it does not take into consideration the loan amount.
- Interest on Loans – interest on the loans presumably has been high.
- Loan Size – According to the clients, the loan amount granted them is small. The issue is that clients think that by obtaining bigger amount their businesses will grow but they forget whether their businesses could meet the repayment.
- Times Spent at the Microfinance Institution office – After the completion of the required documentations, clients visit the institutions three times on the average and spend between one to three hours each visit. This takes munch of their time off their businesses.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

There is evidence that microfinance Institutions are really making credit available to entrepreneurs of small and medium scale enterprises. Prior to this, inadequate credit was a major problem facing the sector. As conceptualized, Microfinance Institutions are not to provide only credit but other financial services- to provide investment opportunities to the clientele, and non-financial services such as training in business management- to keep their clientele well informed to take reasonable decisions concerning their businesses.

The payment of interest is very crucial in attracting and if Savings and Loans Institutions are able to show to their clients how their savings are growing it will encourage them not to save for loans. Bank of Ghana should strengthen its monitoring to protect the deposits of savers and as well bring unscrupulous deposit taken institutions to book. This will boost the confidence of the public in deposit taking institutions.

Moreover, policy concerning the small and medium scale enterprises should be counted as a strong power to influence the economy as a whole. There is the need for policy shift towards massive human resource development for entrepreneur's of small and medium scale enterprises sector as envisage in the government three priority areas of development. The overall result of these towards the SME's can help to reduce poverty and improve living standards of the people.

6.2 Recommendations

From the discussions made, the following recommendations are suggested:

- **Education on Savings**

It is suggested that prospective as well as existing clients should be well educated on the importance of savings. Moreover, conscious effort should be made to include in the curricula of schools of all ages, the need to cultivate the habit of savings such that it will be appreciated when such people come of age. There is also the need for a massive public sensitization on the importance of savings.

- **Protection of Deposits**

There is the need for Bank of Ghana to provide enough security for public deposits with deposit mobilizing institutions. BoG must tighten its regulatory framework as well as its requirements for deposit taking institutions so as to restrict the influx of "Savings and Loans Institutions" in the country. This is necessary due to the situation where the public have their deposits stolen by some of the institutions. Such a move will increase the confidence of the public in the institutions that will take their deposits. The Bank of Ghana should also strengthen and empower the association to cater for those that are outside BoG's control such as NGOs and susu operators.

- **Human Resource Development of Small and Medium Scale Enterprises**

The plans envisaged in the 2007 State of the Nation Address should be brought to bear on entrepreneurs of small and medium scale enterprise. Existing structures providing training especially to the informal sector should be strengthened as well as provide support for nongovernmental organizations that specialized in that regard. The government must come out with a policy to address capacity for the informal sector where SME's abound.

- **Determination of Credit Need of an Enterprise**

It is recommended that loans granted should be based on the cashflow lending methodology. In the case of small and medium enterprise, cashflow method assumes that financial inflow and out of the enterprise is not separated from that of the household as such cashflow of both should be considered in computing loan amount vis-à-vis the repayment capacity. Although this is not a panacea to default but it serves as a guide as to the maximum loan amount that should be granted to an enterprise and the repayment frequency.

- **Grace Period**

It is recommended that Microfinance Institutions allow some grace period to enable beneficiaries' turnover the loan for some time before they start repayment. Interest could be charged for that period and spread over the entire loan term.

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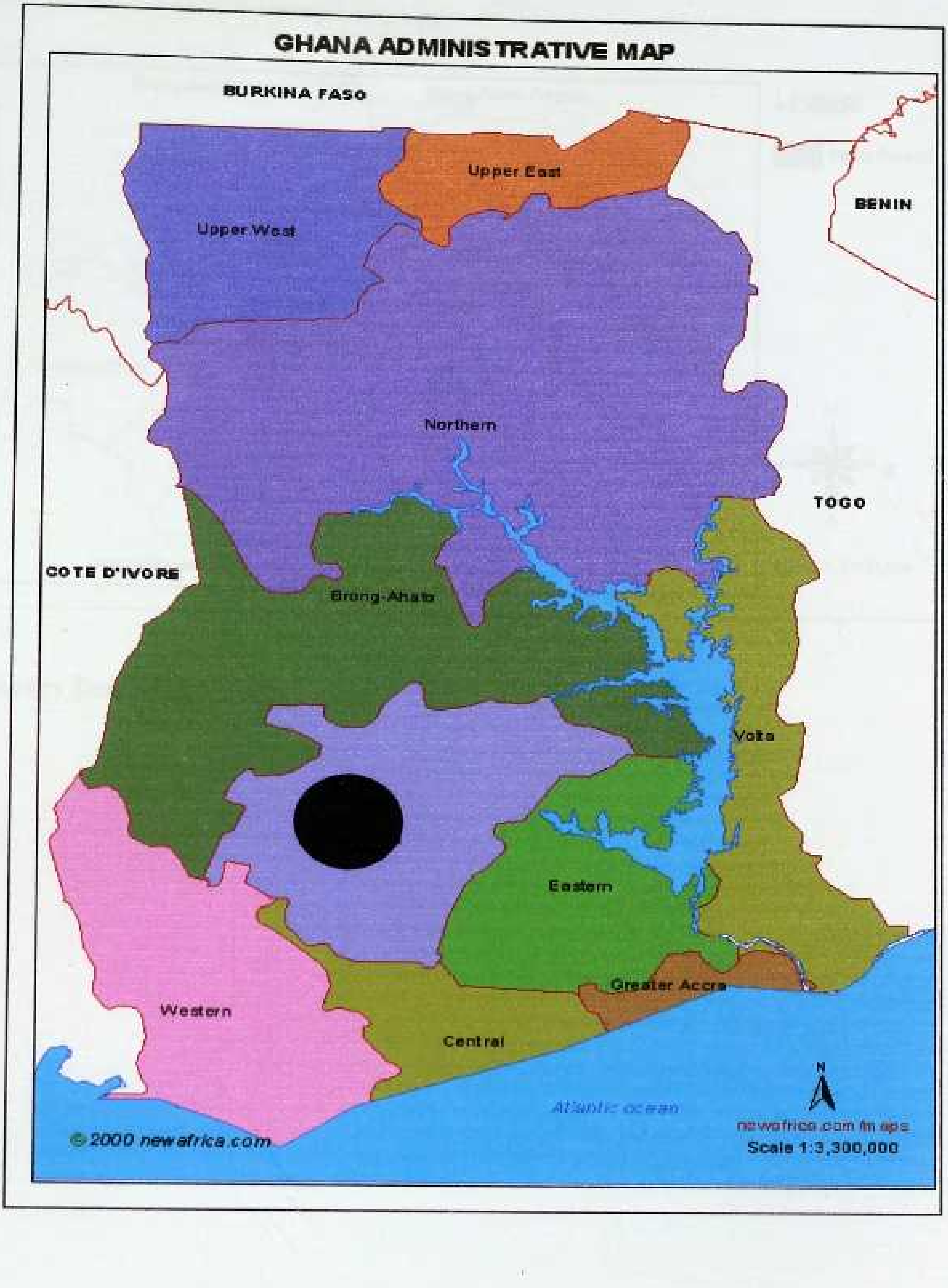
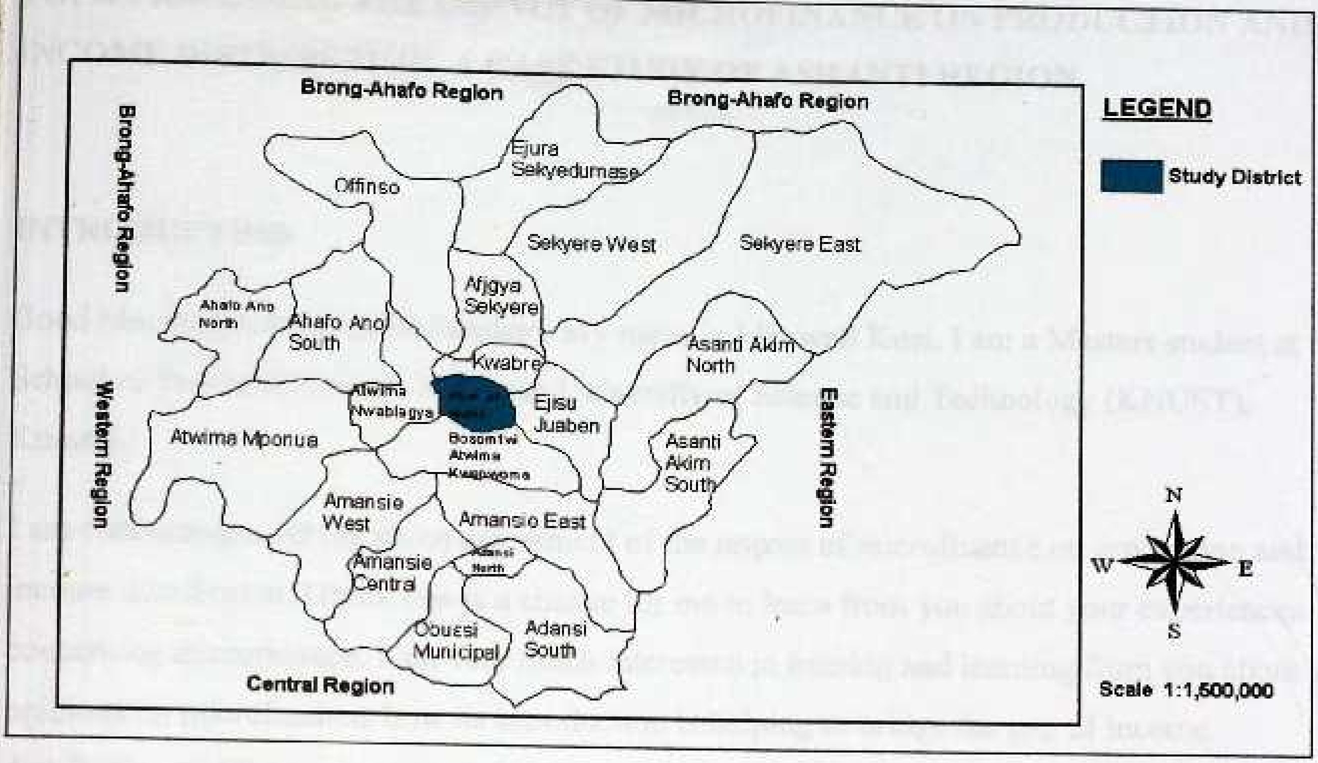
Appendix 1: Administrative Map of Ghana Showing Kumasi Metropolitan Area



Appendix 2: Map of KMA in Regional Context



Source: Survey Department, 2005

Appendix 3: Questionnaire for Respondents

QUESTIONNAIRE

TOPIC: ASSESSING THE IMPACT OF MICROFINANCE ON PRODUCTION AND INCOME DISTRIBUTION. A CASE STUDY OF ASHANTI REGION.

INTRODUCTION

Good Morning/Afternoon Sir/Madam. My name is Maxwell Kusi. I am a Masters student at the School of Business, Kwame Nkrumah University of Science and Technology (KNUST), Kumasi.

I am conducting a survey about assessment of the impact of microfinance on production and income distribution. I think this is a chance for me to learn from you about your experiences concerning microfinance. I am very much interested in hearing and learning from you about your opinions on microfinance, how its introduction is helping to bridge the gap of income distribution and the impact on production.

Your participation is entirely voluntary. You can agree to take part in the survey. If you agree to take part, you can withdraw at any point in time and this will not affect you and your household in anyway. All the information collected for this study will be treated as confidential. No information will be released to anybody.

You can also choose not to take part in the survey.

If you want to find out more about this study, you may contact the following:

Kwame Nkrumah University of Science & technology (KNUST)

School of Business

Kumasi.

IF RESPONDENTS AGREES TO BE INTERVIEWED, PROCEED WITH INTERVIEW IF RESPONDENTS DISAGREES TO BE INTERVIEWED, END THE DISCUSSION AND THANK HIM/HER.

A. SOCIO-DEMOGRAPHIC CHARACTERISTICS

1. Age [ ]

2. Marital Status
   [a] Married [b] Single [c] Widow [d] Widower [e] Divorced

3. Number of Children [ ]

4. Level of Education (Last level attended)
   [a] Primary [b] Middle/JSS [c] Secondary/Vocational/Technical

   [d] Tertiary [e] No Education

5. Occupation
   [a] Farmer [b] Public worker [c] Private worker [d] Trader
   [e] Others (Specify) ....

6. Religion
   [a] Christianity [b] Islamic [c] Others

7. Sex
   [a] Female [b] Male

B. PERCEPTION AND KNOWLEDGE OF MICROFINANCE

1. What type of Business is the microfinance loan for?
   [a] farming [b] Production [c] Trading [d] Others (Specify)

2. For how long have you been in this business?
[a] Less than 6months [b] Less than 1year [c] Less than 2years [d] Five years or more

3. How many times have you accessed the facility?
[a] First time [b] 2 – 4 times [c] 5-10 times [d] More than 10 times

4. Has it been easy accessing the microfinance?
[a] Yes [b] No

5. Is the process of obtaining the facility cumbersome?
[a] Yes [b] No

6. Is microfinance the only source of finance for your business?
[a] Yes [b] No

C. PURPOSES OF MICROFINANCE LOANS

1. What is the purpose of the facility?
[a] Start new business [b] Expand your business [c] Private use

[d] Others (Specify)

2. Is the amount given sufficient for your business?
[a] Yes [b] No

3. For how long do you need the microfinance loan?
[a] Less than 6months [b] 1 year [c] 1 – 3 years [d] 5years and more

4. Are the terms and conditions of the loan favourable to your business?
[a] Yes [b] No

5. Are you able to comply with these terms and conditions?
   [a] Yes [b] No

6. Is the interest rate high?
   [a] Yes [b] No

7. Does the interest rate have any impact on your business?
   [a] Yes [b] No

D. OUTCOME

1. Has your business grown after assessing the microfinance loan?
   [a] Yes [b] No

2. Have you achieve any appreciable income/profit after the loan?
   [a] Yes [b] No

3. Has the living standard of you and your family improved?
   [a] Yes [b] No

Appendix 4: List of Tables

Appendix 5: Definition of Terms

TERMS

- **Microfinance:** The provision of small loans and savings facilities, especially to the poor in society.
- **Production:** Is the process in which things are made, usually with the help of people, or in a factory.
- **Income Distribution:** The way in which wealth, property etc is shared among the members of a society.
- **Poverty:** The situation or experience of being poor
- **Loan:** an amount of money that you borrow from a bank etc.

Appendix 6: List of Abbreviations/Acronyms

ABBREVIATIONS/ACRONYMS

- NGO: Non Governmental Organisation
- MFI: MicroFinance Institution
- LDC: Less Developed Countries
- CBD: Central Business District
- GSS: Ghana Statistical Service