Kwame Nkrumah University Of Science And Technology, Kumasi

Institute Of Distance Learning

THE EFFECTS OF CREDIT UNION ACTIVITIES ON ITS MEMBERS: A CASE STUDY OF SELECTED CREDIT UNIONS IN SUNYANI MUNICIPALITY

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MAY, 2011

DECLARATION

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

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Supervisor's Name	Signature	Date

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	....	....
Dean, IDL	Signature	Date

DEDICATION

This work is dedicated to the following people with Lots of Love: My beloved mother, Madam Grace Baah, my Siblings and Nieces and Nephews especially Dufie Ofori Amanfo and Eunice Owusu Domfeh. Lastly, to my Lovely Fiancée Georgina Quaicoo.

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ABSTRACT

The main objective of the study is to find out the financial challenges facing members of the Credit Unions and the efforts being made to improve the quality of life of members. The study examined the financial benefits and facilities available to members. One Hundred and Fifty (150) questionnaires were administered to selected members of the three (3) Credit Unions in the Sunyani Municipality. Statistical Package for Social Sciences (SPSS) was used for the analysis. From the research, it was found out that members of the Credit Unions faced certain financial challenges like educational expenses, land and rent advances, working capital and business inputs. It was also revealed that the Credit Union annual interest rates were a little higher than those charged by the banks. In spite of this, the Credit Unions had had tremendous positive effects on the living standards of the members. This was affirmed by the fact that members had access to loans for meeting their financial challenges which they would not have had readily from the Traditional Banks without collateral security. Management staff of the Credit Unions was found to lack the requisite professional competence and expertise for managing the scheme. The study recommends that interest rates of Credit Unions should be reduced and the competence of management staff of the scheme should be upgraded in risk and investment management to make the scheme more viable and sustainable.

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ABBREVIATIONS/ ACRONYMS

ACCOSCA	-	African Confederation of Co-operative Savings and Credit Association
BACCSOD	-	Brong Ahafo Co-operative Credit Society for Development
BOG	-	Bank of Ghana
CBOs	-	Community-Based Organizations
CEMBA	-	Commonwealth Executive Masters in Business Administration
CEO	-	Chief Executive Officer
CFF	-	Central Finance Facility
CUs	-	Credit Unions
CUA	-	Credit Union Association
DACF	-	District Assembly Common Fund
ENOWID	-	Enhancing Opportunities for Women in Development
FNGO	-	Financial Non-Governmental Organization
GHAMFIN	-	Ghana Microfinance Institutions Network
GPRS	-	Growth and Poverty Reduction Strategy
IMF	-	International Monetary Fund
KNUST	-	Kwame Nkrumah University of Science and Technology
MFIs	-	Microfinance Institutions
NBFIs	-	Non-Bank Financial Institutions
NBSSI	-	National Board for Small-Scale Industries
NGO	-	Non-Governmental Organization
PAMSCAD	-	Programme of Action to Mitigate the Social Costs of Adjustment
RCBs	-	Rural and Community Banks
RMFIs	-	Rural and Microfinance Industries
ROSCAs	-	Rotating Savings and Credit Associations

SACCOs	-	Savings and Credit Co-operatives
S&Ls	-	Savings and Loans
SMEs	-	Small-Scale Enterprises
SAT	-	Sinapi Aba Trust
SPSS	-	Statistical Package for Social Sciences
SSNIT	-	Social Security and National Insurance Trust
SUCCOCU	-	Sunyani Christians' Co-operative Credit Union
SMTCCU	-	Sunyani Municipal Teachers' Co-operative Credit Union
US $	-	United States Dollars
WOCCU	-	World Council of Credit Union
WWW	-	World Wide Web

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background for the Study

Poverty has been a great challenge, in every economy, both the developed and developing world. There has been the existence of various avenues for addressing the financial needs of citizens and households. Most governments especially in the developing world have either instituted or promoted Microfinance Institutions (MFIs) as a poverty reduction strategy. The Credit Union movement has been identified as a potential means of mobilizing funds for personal, as well as, business development.

Credit Unions as co-operative credit institutions are organisations owned and managed by their members who are themselves patrons. In co-operatives, all members whatever the levels of their skills or level of contributions to the organisation resources have equal rights to partake in decision making. In co-operative theory, it is anticipated that members' participation would lead to their overall control over the affairs of their organisation. This would then ensure that they are able to set the goals and determine the direction of its operations in order that the prime objective of co-operatives, namely; the promotion of member's interest is realised. Hence, co-operative institutions have been described as self-managed and democratic organisations (Rosner, 1983 and Henzler, 1962).

Most Credit Unions operate largely in the rural areas where the inhabitants are mostly into farming and others into micro or small scale business and cottage industry. People found in this sector of the economy normally have relatively low income. The Credit Unions in such rural areas help the people to save and/ or through forums and education, inculcate the habit of savings into the inhabitants.

Most of the Credit Unions operate within the banner of religious bodies, e.g. Churches and Educational or Community Institutions. This makes the people in the rural areas willing to trust the operators with their resources. Other Credit Unions are also formed and operated at work places; thus making the staff members of the said Unions. Another advantage that helps the Credit Unions in their operation is the willingness of its members to save locally and be able to acquire credit facilities at conditions that will favour them when the need arises.

Credit Unions do mostly well in the rural communities since most communities do not have banks and therefore cannot get access to loan facilities, even those with banks, with the high demands and conditions of the bank do not allow easy access to loan facilities. Thus, going in for credit or loan has an associate high cost (interest) as normally banks interest rates are very high.

Credit unions provide opportunity for its members to obtain loan facilities at moderate rate of interest and better conditions than that offered by the banks and other financial institutions coupled with flexible repayments.

Some credit unions also provide investment counselling to their members, poverty alleviation assistance and also give training to members on credit management at little or no fees which will not be provided by some other financial institutions.

In consonance with the aforementioned benefits, Credit Unions can be said to have contributed greatly to economic development in terms of providing finance to small scale businesses, creating the willingness to save among rural people and improving the economic well-being of the people in the communities.

The study was aimed at assessing how the Credit Unions have affected positively the lives of its members in the Sunyani Municipality, the regional capital of Brong Ahafo.

1.2 Statement of the Problem

The Ghanaian economy has witnessed an unprecedented wave of increased financial initiatives over the past almost two decades in the financial sector. In the light of this, both the Banks and Non-Bank Financial Institutions (NBFIs) are competing and devising various means of capturing sizeable clients through offering favourable competitive terms of credit retailing. In the face of this strong competition, some Credit Unions still employ few officers to run the administration of the union and are also unable to employ highly professional and skilled personnel to run the affairs of the union. The level of training and education is generally lower in Sunyani.

According to the Chronicle paper (February, 2008), Professor George Gyan-Baffour, the then Deputy Minister of Finance and Economic Planning, indicated that high interest rates charged by the Banks as well as the Savings and Loans Companies were killing businesses in the country, especially Small and Medium Enterprises (SMEs).

He said the trend between lending and borrowing was still high since it was affecting the growth of businesses in the country. According to him, the problem of high interest rates was an impediment on the economy since it forces more businesses to close down.

The study therefore seeks to research into the activities of various credit unions to assess how they have affected positively the lives of its members in the Sunyani Municipality.

1.3 Objectives of the Study

The general objective of the study is to assess the effects of the Credit Union scheme on the living conditions of members.

The study specifically examined the following:

1. To identify the financial challenges of members
2. To assess the adequacy of benefits and/or facilities available to members
3. To assess the effects of Credit Unions on members vis a vis competition from Banks and Non-Bank Financial Institutions.

1.4 Research Questions

The study was guided by the following research questions:

1. What are the financial challenges facing members?
2. What financial benefits and/or facilities are available to members?
3. What effects have Credit Unions made on the lives of their members?

1.5 Significance of the Study

It is believed that the findings of this research would go a long way to help the Credit Unions improve greatly the quality of life of members and that more organizations, communities and churches would have the enthusiasm to establish Credit Union schemes. Again, the habit of thrift, savings and investment could be promoted in the Sunyani Municipality and that the knowledge on savings mobilization and wealth creation could also be enhanced.

1.6 Methodology

The study was successfully carried out by gathering data from both primary and secondary sources. The major instruments that were employed for the collection of the data for the study were interviews and questionnaires. Both quantitative and qualitative methods were used in the analysis of data of the study.

1.7 Limitations of the Study

The study was seriously constraint by the short time within which it was undertaken alongside other academic work; thereby placing limitation on data collection. The researcher also did encounter some financial and logistical difficulties.

1.8 Delimitation

The research was limited to three credit unions in the Sunyani Municipality. The study nevertheless captures the impressive performances of these three credit unions. Since collection of the data was restricted mainly to the three selected credit unions, the findings of this study may be generalized to cover only members of the selected unions.

1.9 Organization of the Study

The study was divided into five (5) chapters. The first Chapter deal with the background of the study, problem statement, objective of the study, research questions, significance of the study, methodology, limitations and delimitation. Chapter two reviews the related literature on the study topic. Chapter three dealt with research methodology including population, sampling techniques, methods of data collection and the research instruments employed. The fourth chapter presented the detailed analysis of the data collected and presentation of information with the aid of quantitative and statistical models. The fifth and last chapter looked into summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to find out what others have written about the study topic; the effects of Credit Union activities on its members. The section primarily deals with what other authors have done in regard to the subject matter. Ghana is particularly interesting because of its tiered system of different laws and regulations for different types of institutions. This has evolved largely in response to local conditions and because so many of its institutions are savings-based. The resulting system resembles the tiered approach recommended by the World Bank's 1999 study of microfinance regulation (Van Greuning et al.,) and more recently adopted by Uganda

2.2 Brief History of Credit Unions

The first credit unions, those founded in Germany in 1840s and 1850s by Raiffeisen and Hermann Schulze-Delitzsch, were created to deliver micro-credit in a nation that had only recently freed its rural population from serfdom. The founders specified that the purpose of these credit unions was to make loans "for productive purposes" – to help farmers capitalize their farms or diversify their income, to help tradesmen buy their tools, and to help anyone who wanted to start or build a business to take the next step.

By 1914, German credit unions had over 2 million members, of whom over three-quarters lived in rural communities. Linked by national and regional networks that served their needs for training, technical assistance, interlending and audit services, the movement was almost entirely self-regulated. It was financed from its base: by the savings of rural farmers. It was then later exported to other parts of Europe and North America. It was introduced to the Gold Coast now Ghana by an Irish Canadian Catholic Priest in September, 1955 by name Reverend Father John McNulty (Kirsch and Goricke, 1977). He established the first credit union at Jirapa in the present Upper West Region.

It has been reported that the earliest credit unions that subsequently sprang up in the Northern Regions of Ghana were all parish and community based. When the idea moved to Southern Ghana worked based credit unions dominated the scene there. By 1968, when they were brought under legislation and the Credit Union Association (CUA) was formed as an apex body, there were 254 CUs (64 of them rural) with some 60,000 members (Quainoo, 1997).The number of CUs continued to grow to nearly 500 by the mid-1970s, but their financial performance was not particularly strong. High inflation in the late 1970s eroded their capital, and by the early 1990s, the number of CUs had fallen by half. The weak financial performance of CUs has been due in large part to their organization as co-operative societies with a welfare focus, and in particular to their policy of low interest rates.

CUA has 250 affiliates (2003) with 132,000 members (about a quarter of them Study Groups in the process of becoming full credit unions). Credit unions average about 400-500 members, and their average loan size of US$153 is well above that for African MFIs, as well as for RCBs. CUA has attempted to establish a financial reporting system for its members, but the quality data remains poor. Furthermore, many managers, as well as Board and members, have little understanding of the business of financial intermediation. “Over 70% of all Ghanaian credit unions were in an ‘unsatisfactory’ situation as of April 1996, and 42% of them were placed in the worst category” (Camara, 1996). By the end of 2001, these ratings had improved to 60% and 15%, respectively, and the share given the top rating for financial soundness had improved significantly to 29% (CUA 2002). Most CUs require borrowers to provide security, in addition to being in good standing with their deposits. Ideally, this can be in the form of a guarantee from another member of the credit union who has adequate uncommitted savings balance. Some CUs use the *Susu* method in the collection of deposits and loan repayments. CUA is an innovator in providing both credit insurance (which pays off the outstanding loan balance in case of the death of a borrower) and a contractual savings program (which matches savings, up to a limit, if held at death or to maturity) (Gallardo et al. 2002).

According to the Ghana Credit Union Association statistics, as at 2008 there were 371 registered credit unions with membership at 278,236 of which 138 were workplace based (37per cent), 142 parish based (38 per cent), and 91community based (25 per cent). It had mobilized total assets of GH?145.3 million, mobilised deposit of GH?121.6 million and granted loans in the sum of GH?87.1 million.

2.3 Definition of Credit Union

According to Duah, (1998) a credit union is a financial co-operative institution that provides a range of services especially deposit (savings) and loans to their members only. Its membership is restricted to people who share a 'common bond of association' such as workers in a particular workplace, church members, people in a local community etc. Their aim is usually to borrow small amounts of money at reasonable interest rates from each other and also help each other to save to meet these borrowing needs. Their goal is to provide low interest rates alternative to those of banks and usurious money lenders. In modern times, they could be described as microfinance institutions serving the needs of member individuals and their SMEs where necessary.

Turner, (2000), defined a credit union as, "a financial self-help co-operative which encourages members to save money together and pooled resources are then used to provide low-cost loans to members." He again stated that," credit union operates within a clearly defined area of location and a mutual link must exist between all members. This link is known as the common bond of the credit union. The common bond may be based on all members living in the same locality or all members working for the same employer".

The Credit Union Association (CUA) defined credit union as 'a voluntary self help organisation of people limited by common bond who agree to save their money together and make loans at a low rate of interest for productive and provident purposes.

Again, World Council of Credit Unions (WOCCU), defined credit unions as non-bank financial institutions owned and controlled by members. It is also a democratic, member-owned financial co-operative. Each member, regardless of account size in the credit union, may run for the board and cast a vote in elections. As financial intermediaries, credit unions finance their loan portfolios by mobilizing member savings and shares rather than using outside capital, thus providing opportunities for generations of members. Credit unions exist to serve their members and communities. As not-for-profit cooperative institutions, credit unions use excess earnings to offer members more affordable loans, a higher return on savings, lower fees or new products and services. They serve members from all walks of life, including the poor and disenfranchised (http://www.woccu.org).

2.4 Objectives of Credit Union

The objectives of credit unions as outlined by Duah, (1998) are:

-To promote the savings habit and learn to be thrifty;

-To build a pool of funds through regular savings for the benefit of the members;

-To grant credit at reasonable and affordable rates of interest;

-To enhance the financial status of the member through the proper management of his or her financial resources.

In addition to these traditional objectives, credit unions are also used by governments today as change instruments for the reduction of poverty at the microfinance level.

2.5 Features/ Characteristics of Credit Union

Turner, (2000) identified the following features/ characteristics about credit unions:

- The credit union does not seek a profit.
- The credit union is equally not a charity. Members have to demonstrate their ability to save regularly before being considered for loan.
- Credit unions aim at providing service to their members.
- Credit unions offer low interest loans with a repayment schedule designed to suit the member's ability to repay.
- Credit unions offer the opportunity to establish a regular savings pattern.
- Credit unions operate at times and locations which are convenient to the members, including evenings and week-ends.
- Credit unions seek to make members feel a part of the union or society and treat all

members with respect and consideration.

- Although, a credit union is very different from a bank, the two types of organizations are potentially in competition in the areas of savings and loans.

2.6 Operational Strategies of the Credit Unions

Following Aryeetey (1996) and Webster (1996), two major indicators were used to assess the operational strategies of the Credit Unions, namely; the mix of programmes offered by CUA and the methodologies for providing services to members.

- Mix of Programmes –This is concerned with the products and services of the Credit Unions and includes financial and non-financial services.
- Methodologies – This describe the principles for financial services. It is about CUA's approach to the problems of poor information, high transaction costs, repayment (when legal contracts enforcement mechanisms are lacking, how to give incentives to repay), risk management and sources of funds (savings mobilization, grants, credit lines capitalization). The information on methodologies was categorized into formal bank methodologies and informal methodologies. *Formal Bank Methodologies*: Banks use several techniques to pre-screen clients and concentrate on relatively few large transactions. They include; feasibility studies, collateral, track record and minimum deposits. *Informal Methodologies:* Include personal relations, family connections or knowledge of business relations.

2.7.0 Theoretical Perspectives on the Development of Credit Unions

Though the study of Credit Unions has gained widespread attention, there is still a conspicuous absence of a common framework for its study (Richardson et. al., 1993). In spite of this, the organizational character of Credit Unions as co-operatives has the conceptual tools to conduct a fruitful analysis of the pattern of development found in them.

2.7.1 Co-operatives and Market Economies

The ways and means co-operatives institutions have managed to adjust to their environment have engaged the attention of co-operative theorists since the emergence of these organizations. In general, it has been observed that developments in the market economies of Western Europe have set new imperatives for the development of co-operative institutions. (Holmen,1990). As capitalism matured and market conditions changed, co operative enterprises were forced to adjust to their compelling demands. The presumed character of co-operatives as an organization based on the common bond and mutual aid between members gave way to legal rational relations. Co-operatives gradually accepted the existing private-capitalist market economy and conceived themselves as merely corrective institutions within it (Mellor et. al., 1988).

2.7.2 Trends in the Development of Credit Unions

The observations on co-operative development show how market conditions have led to changes in the development of co-operatives. May, 1983 states that Credit co-operatives start as local institutions operating in a given community or radius. At this stage the organisational principle is based on the common bond between members. This common bond is based on parish, community, occupation and ethnic membership. Business at this stage is strictly membership trading. At this stage the Credit Union is highly competitive, because members offer voluntary services and are highly motivated.

According to Kirsch and Goricke, (1977), a further stage in the development of the Credit Unions were the interaction between primary Credit Unions. This was the basis for developing secondary or tertiary Credit Union organizations. Through that a central fund was set up and co-operation with other institutions was further developed.

Jordan, (1980), states that another growth pressure is the decision as to the type of business in which to engage. As was in Canada for instance, the credit co-operatives had to decide to stay as savings and loans institutions with only membership trading and limited services or as financial institutions providing full financial services. This was because of strong competition from other financial institutions.

McKillop et.al, (1997), have also chronicled a three-stage Credit Union industry development. According to them, Credit Unions move through three industry stages of development "nascent" through "transitional" and finally to a "mature" stage of development.

The nascent industry represents a stage of development in which Credit Unions are seen as self-help organizations. Hence, they are not just financial oriented but organizations with a strong social purpose. Key attributes of this stage include small asset size, tight common bond between members and emphasis on voluntarism.

Transition Credit Union industries mark the stage in which the seeds of change within Credit Unions are sown. The characteristics of the industry show a relaxation of co-operative philosophy and ideals. This is caused by the need to achieve cost efficiencies and scale economies owing to asset growth and competition in the market.

The mature stage brings to an end the development path of Credit Unions. According to McKillop et. al., (1997), the key attributes of this stage indicate a Credit Union with large asset size and a less restrictive interpretation of the common bond requirement for members. There is a trend toward a well organized central services and diversification of products, professionalism of management instead of voluntarism. Though membership continues to grow, there are fewer Credit Unions due to mergers. There is tendency for Credit Unions to adopt the features of the main stream financial institutions.

2.8 Challenges to Credit Unions

Credit unions as microfinance institutions have some peculiar challenges in the changing world due to their nature and current economic trend. Shirley Cate, President and CEO Providence Federal Credit Union stated that an ongoing challenge that credit unions face, during this economy as well as at other times, is consumers did not realize that membership of a Credit Union is possible for virtually everyone. People still think they have to be in a certain industry or work for a specific employer to have access to a Credit Union. And with all the news coming out about the banking industry, many consumers feel like they have no place to turn. Credit Unions only serve a good percent of the population now but between employer-based Credit Unions and those with community charters, eligibility is no longer a barrier. Credit Unions are actively lending despite the many headlines that tout there is no credit available, she added.

2.9 Challenges of the Economic Liberalization and the Financial Sector Regulation

Recent developments in Ghana's economy since introduction of the economic liberalization program in 1985 have posed some challenges to the Credit Unions. This comes especially from competition other financial institutions and increasing demand for improved financial services (e. g automation). The financial sector in Ghana, like most developing countries was also fragmented in terms of different institutions using diverse methods to serve varied clients. This resulted in the emergence of formal and informal segments in the financial sector. Fragmentation also implied that the different market segments approached problems of poor information, high transaction cost, risk management, mobilization of funds, grants and capitalization differently (Steel, 1998).

Aryeetey et al., (1994), had stated that competition from financial institutions come especially from Microfinance Institutions (MFI). The cumbersome features of formal financial institutions in the delivery of credit and lending procedures have led to the development and growth of a considerable number of MFI's. These microfinance institutions, mostly Rotating Savings and Credit Associations (ROSCAs), mobile informal banking (Susu clubs) and Savings and Loans societies, like the Credit Unions have adopted innovative strategies through the use of informal methodologies based on personal relations, family connections or knowledge and business relations for providing easier loans. For instance, research has shown that people patronise these microfinance institutions for a number of reasons. Among these reasons are:

- Flexibility and adaptability of their services to the needs and work patterns of the rural and urban poor. Such customers normally lack access to institutionalised banking because of their small deposits and their lack of collateral.
- Person to person contact between Susu collectors and client ensures confidentiality in the financial transaction.
- Opportunity is provided for individuals to save small amounts which can be accumulated as start up capital.

In general, customers are price sensitive to banking services. They demand low interests for credit, convenient location and wide range of services. This has encouraged vigorous competition in the banking industry. For Credit Unions to be competitive, they need to operate at low cost. This requires operational efficiency and scope economics. Furthermore, they would also need to combine effective product and service differentiation with low cost operation.

2.10 The Traditional Credit Union Model

The traditional model discouraged savings, encouraged borrowings and forced those who saved to subsidize those who borrowed. Members who deposited shares in their Credit Unions often could not withdraw the shares until they terminated their membership and they received no yield on their shares. The amount of a loan that could be obtained was dependent on the number of shares, which was held in savings. The result of these policies and practices, was a chronic shortage of loanable funds (Richardson et. al., 1993).

2.11 The New Credit Union Model

The cornerstone of the new model was the gradual reduction of the traditional reliance on member shares for capital and member deposits. This new market-oriented model represents a radical departure from the policies of the past. In general, the new model necessitated the following changes in the traditional model (Richardson et. al., 1993):

- A shift from deposit savings to share savings.
- Shift to market rates on loans.
- Shift to capitalisation of earnings.
- Shift to repayment-based credit analysis.
- A shift to market-based, results-oriented business planning.
- A shift to improved financial information reporting control and evaluation.

According to Almeyda and Branch, (1998), a number of key policies were attached to the new credit union model which included:

- Competitive pricing for savings and loans.
- Intensive mobilization of savings.
- Maintenance of adequate liquidity to satisfy unanticipated withdrawals of savings.
- Application of new lending criteria centred around capacity-to-pay analyses, credit history and available collateral.
- Creation of loan/loss reserves in relation to delinquency.
- Reduction of non productive assets.

- Capitalisation of all net earnings.
- Use of marketing programmes to improve public image.

In Latin America where this new model was first implemented Credit Unions began to pay market rates of interest on deposits. They also raised interest rates on loans to cover the costs of the savings mobilization programmes. The Credit Unions also decided to pay share capital much like the interest paid on savings deposits (Almeyda and Branch, 1998).

In Ghana, the new model required Credit Unions to adopt new institutional policies, financial management discipline, and credit administration in Ghana. This included the introduction of financial management disciplines such as capital accumulation, loan delinquency control, loan/loss provision and liquidity management (WOCCU/ ACCOSCA, 1995). The Role of the Credit Union Association of Ghana (CUA) was to serve as a financial intermediary of affiliated Credit Unions. It was also to bring about economic and administrative strengthening of affiliated.

2.12 The Need for Microfinance in Ghana

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are target at low income clients. Microfinance refers to provision of small loans and other facilities like savings, insurance, transfer services to poor low-income household and microenterprises.

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRS 11) is to ensure 'sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment'. The intention is to eliminate widespread poverty and growing income inequality, especially among the productive poor who constitute the majority of the working population. According to the 2000 Population and Housing Census, 80% of the working population is found in the private informal sector. This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy. The observation was stressed in the International Monetary Fund (IMF) Country report on Ghana of May 2003 that 'weaknesses in the financial sector restrict financing opportunities for productive private investments are a particular impediment to business expansion in Ghana'.

Microfinance is perceived as a financially sustainable instrument meant to reach significant number of poor people of which most are not able to access financial services because of the lack of strong retailing financial intermediaries. Access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development (World Bank Africa Region, 1999). Microfinance as a sector has the potential to reduce poverty by bringing a significant improvement in the lives of the active poor who are largely women.

2.13.0 Microfinance Institutions

Microfinance Institutions may be defined as institutions which act as intermediaries between micro savers and borrowers as well as institutions which provide assistance to such intermediaries (Webster, 1996 and Steel, 1998).

The MFIs financial sector consists of a diverse group of Non-Bank Financial Institutions (NBFIs) and agents that have adopted innovative approaches to credit retailing. This has involved the use of specialized character based methodologies to provide financial service to low-income households, micro enterprises, small farmers, and others who lack access to the formal banking system (Aryeetey, 1996).

Asiamah, 2007 identified three broad types of Microfinance Institutions operating in Ghana namely:

- Formal suppliers: are those incorporated under the Companies Code, 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Law, 1989 or the Non-Banking Financial Institutions Law, 1993 (NBFI Law) to provide financial services under Bank of Ghana regulation. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchments areas, and their minimum capital requirement is significantly lower. Among the nine specified categories of Non-Bank Financial Institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are the most active in micro and small-scale financial intermediation using microfinance methodologies.

- Semi-formal suppliers: are the Financial Non-Governmental Organizations (FNGOs), Credit Unions (CUs) and the Co-operatives. They are legally registered but not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty alleviation focus leads most of them to provide multiple services to poor clients, including micro credit, though mostly on a limited scale. They are not licensed to take deposits from the public and hence have to use external (usually donor) funds for micro credit. Credit Unions are registered by the Department of Co-operatives as co-operative thrift societies that can accept deposits from and give loans to their members. Although Credit Unions are nominally included in the NBFI Law, BOG has allowed the apex body Ghana Co-operative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.

- Informal suppliers: these covers a range of activities known as susu, including individual saving collectors, rotating savings and credit associations, and savings and credit 'clubs' run by an operator. It also include moneylenders, trade creditors, self-help groups and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under the Moneylender Ordinance 1957.

The commercial banking system is dominated by a few major banks and reaches only about 5% of households, most of which are excluded by high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the RCBs, S&Ls, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies. The assets of RCBs are nearly 4% of those of commercial banking system, with S&Ls and CUs adding another 2%. While 'RMFIs' is used to refer collectively to the full range of these institutions, they use different methodologies to reach different (albeit overlapping) clientele among farmers, rural households, the poor and micro enterprises; hence different regulatory and supervisory instruments may be appropriate (Asiamah, 2007).

2.13.1 Rural and Community Banks

RCBS are unit banks owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation. They were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The number expanded rapidly in the early 1980s, mainly to service the government's introduction of special checks instead of cash payment to cocoa farmers – though with adverse consequences for their financial performance (Nissanke and Aryeetey, 1998). Through a combination of rapid inflation, currency depreciation, economic decline, mismanagement of funds and natural disasters, combined with weak supervision, only 23 of the 123 RCBs qualified as "satisfactory" in 1992. The obvious need for re-capitalization and capacity-building was addressed during 1990-94 under the World Bank's Rural Finance Project, with half of them achieving "satisfactory" status by 1996. The combination of very high (62%) primary and secondary reserve requirements imposed by BOG in 1996 and high Treasury bill rates helped to reduce the risk assets and increase net worth, further improving their financial performance. The number of RCBs reached a peak of 133 in 1998, but fell to 111 in 1999 with the closure of 23 distressed banks and the commissioning of one new bank. These closures sent a strong signal to the remaining rural banks to maintain or improve their operations in order to achieve satisfactory status. Between 1999 and 2001 there was 64% increase in the number of satisfactory banks.

2.13.2 Savings & Loans Companies

Initial licensing of the new S&L category was difficult, as the BOG grappled with how to implement the new law. The required minimum capital (¢100 million or US$150,000) initially posed a hurdle, but its real value was eroded by rapid inflation, and the number of S&Ls grew from 3 in 1995 to 7 by 1998. By 2002 the 8 S&Ls had over 160,000 depositors and 10,000 borrowers. Increases in the minimum capital requirement in 1998 and 2000 restored the dollar value through a ten-fold increase in the nominal value, and a further raise in 2001 to about US$2 million stalled the rate of new entry.

Nevertheless, the S&L category has proven to be a flexible means of regularizing three types of MFIs:

- Transformation of NGOs into licensed financial intermediaries;
- Formalization of actual or potential informal money-lending operations;
- Establishment of small private banking operations serving a market niche.

  The S&L category has also made possible the entry of private investment to serve a particular market niche on a smaller scale than would be required for a commercial bank, although providing a challenge to the supervisory authorities. A recent investment is Sikaman S&L Company Ltd., which is applying international best practices in microfinance to reach profitability within two years. The S&Ls generally use the loan products. For example, First Allied S&L uses a group and individual savings with credit scheme with existing, registered occupation-based groups such as butchers, kente weavers, carpenters, and other associations (Chord, 2000). S&Ls have also been leaders in innovating. Citi S&L has pioneered linkages with *susu* collectors and clubs, and offers a micro-leasing product to clients with at least two successful loan terms (Anin, 2000).

2.13.3 Non-Governmental and Community-Based Organizations

NGOs have facilitated the development of good microfinance practices in Ghana by introducing internationally tested methodologies, often in partnership with RMFIs. These methodologies often are based on group solidarity methods, and have benefited from linkages with CBOs that have already "come together on the basis of some kind of location, occupations, friendship, family ties, gender, or other grounds to serve a purpose at the community level" (Chord, 2000). NGOs and CBOs are particularly important in making financial services available in the northern part of the country, where both commercial and rural banks are scarce – although they tend to be localized and donor-dependent. Ghana has relatively few NGOs whose primary mission is microfinance and that have reached significant scale. Although some 50 NGOs have active micro credit programs, they are generally multipurpose or welfare-oriented agencies (only four exceed 3,000 clients and total outreach is only about 60,000 clients; GHAMFIN, 2003). The principal exception is Sinapi Aba Trust (SAT; established 1994), which has 16 branches country-wide, offering both group-based and individual loans. SAT has reached financial and operational sustainability and sufficient scale to transform into a licensed S&L. The ability to take and intermediate savings would free it from its current reliance on RCBs and other intermediaries to handle clients' funds and on donor funds to finance its lending.

"Village banking" is a group and individual savings with credit methodology promoted most notably by Catholic Relief Services and the Netherlands Development Programme; some are registering with CUA as Study Groups. FFH/CWE uses individual savings with group credit to target women and provide accompanying education on health, nutrition, family planning, financial planning and budgeting, and micro enterprise development. FFH trains the loan officers for partner RMFIs and the groups handle the bookkeeping, so the program can be quite profitable – although until recently, the high reserve requirement for RCBs prevented them from using their own mobilized savings.

2.13.4 Moneylenders

Moneylenders were the first form of microfinance to be officially licensed in Ghana, and have long been an important source of emergency and short-term finance (after relatives and friends) for the vast majority of the population lacking access to commercial financing.. By the mid-1960s, money lending had become more of a part-time activity by traders and others with liquid funds than a full-time profession (Offei, 1965, cited in Aryeetey 1994). The importance, and certainly the registration, of individual moneylenders may have been reduced by the emergence of RCBs, CUs, *susu* associations and clubs, and especially S&Ls, which has enabled money lending-type operations to become licensed. These days most individual moneylenders do not hold licenses or operate full time, and the Ordinance has ceased to be of any importance, although it remains in the statute books.

2.13.5 Susu Collectors, Associations, Clubs, Companies and Products

The *susu* system primarily helps clients accumulate their own savings over periods ranging from one month (*susu* collectors) to two years (*susu* clubs), although credit is also a common feature. In an effort to capitalize on *susu* collectors' intimate knowledge of their clients, several RCBs and S&Ls participated in a pilot program to provide funds to *susu* collectors for them to onlend to their clients (GHAMFIN, 2001), and some have continued with their own funds. The *susu* collectors are the most visible and extensive form. Even though they mobilize savings, the central bank has refrained from attempting to regulate them, leaving them to try to improve the reputation and quality of the industry through self-regulation. Twelve (12) Susu collectors who are registered with associations account for nearly a quarter of the estimated over 4,000 collectors nationwide, collecting an average of US$15 a month from approximately 200,000 clients (GCSCA, 2003).

Some commercial banks have introduced savings products modelled after and advertised as *susu*. Likewise, some RCBs, S&Ls and NGOs have *susu* schemes, daily collection carried out by salaried or commissioned agents. These methodologies have helped them to reach lower-income brackets and women, who constitute 65% to 80% of the clients of these *susu* schemes. Thus, the combination of specialized categories of licensed financial institutions and traditional methodologies has succeeded both in mobilizing savings from lower-income households and giving them access to financial services that are part of the formal, supervised system.

2.14.0 Credit Unions vs. Banks

2.14.1 Structural Differences

In structural terms, credit unions and banking institutions overlap and are broadly similar in many areas. Both take in consumer deposits and make consumer loans. Both are regulated by state and federal agencies. Both are exposed to credit risk and interest rate risk. However, the study of credit unions by the U.S. Department of the Treasury in 1997 noted that there are five main characteristics that distinguish credit unions from banks and thrifts:

1. Credit unions are member owned, member-directed depository institutions.
2. Credit unions rely on unpaid, volunteer boards of directors elected by, and drawn from, each credit union's membership.
3. Credit unions are not-for-profit organizations.
4. Credit unions have a public purpose, "to make more available to people of small means credit for provident purposes."
5. Credit unions face limitations on their membership, usually referred to as a "common bond" requirement.

The first and third distinction means that credit unions do not issue stock to raise capital, instead they rely on accumulated retained earnings for their net worth. This has important implications for regulators, since a troubled credit union whose capital is in danger of dropping below the level considered adequate cannot simply raise additional equity capital by selling more shares. Nor do credit unions have access to the debt markets or markets for large commercial deposits.

2.14.2 Behavioural Differences

The structural differences outlined above mean that credit unions do not necessarily respond in the same way as banks or thrifts to market or economic events. For example, characteristic number three means that credit unions tend to price their loan and deposit products differently than banks and thrifts. Whereas a bank or thrift will seek to maximize its profit for shareholders by charging more for loans and paying less on deposits, a credit union will seek to return part of its profits to its members by charging them less on loans and paying more on deposits.

The spread between credit union and bank rates is not constant, however; Tripp et al. (1997), report that the difference between bank and credit union savings rates narrowed considerably in the mid-1990s as credit unions were slower to raise their rates in response to rising market rates.

2.15.0 Government Credit Programmes

The Government has launched a number of special credit schemes since 1989, usually at subsidized rates, reaching very few people and with extremely poor recovery rates. A partial exception has been Enhancing Opportunities for Women in Development (ENOWID), which in the early 1990s made over 3,500 relatively small loans (over 6 years) with a cumulative recovery rate of 96% using funds from the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) (Quainoo, 1997).

PAMSCAD, launched in 1989, directly reached only some 1,200 clients and struggled to achieve an average 83% cumulative recovery by 1996. None of the other four programmes being administered by the National Board for Small-Scale Industries (NBSSI), which charges 20% has reached a 70% recovery rate or as many as 200 clients. As a result, these ‘revolving funds’ are steadily depleting, involve substantial costs to operate, and have negligible outreach. The Government has also entered into micro credit through poverty alleviation programmes and the District Assembly Common Funds (DACF). While in some instances, this made wholesale funds available to local RMFI for on-lending to clients that they choose, more commonly it has been perceived and used as politically motivated, with negative consequences for repayment. The main threat to sustainable RMFI from this government programmes comes from the negative effects on efforts of RMFIs to mobilize savings and collect from borrowers, whose willingness to repay typically is low when loans are known to come from government or donor funds at subsidized rates.

2.15.1 Interest Rates

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectoral allocation of credit, no doubt retarded development of Ghana's formal financial system. Nevertheless, various forms of informal finance predated financially repressive policies in Ghana, and actually expanded after financial markets were liberalized in 1987 (Aryeetey, 1994). Although interest rates have not been officially controlled since 1987, the Government has nevertheless introduced a number of credit programs targeted for small business development or poverty alleviation whose interest rates were pegged in 2001 at 20% (well below market-determined rates), and District Assemblies have been mandated since 1979 to provide 20% of their 'Common Funds' for micro and small enterprises at an interest rate of 75% of the commercial bank rate.

2.15.2 SECURITY

Licensed banks normally require that loans be secured by title to land or physical assets, deposit balances, or T-bills, following BOG guidelines. These options are clearly beyond the reach of poor households. Close coordination between the Ministry of Finance, BOG and the Ghana Microfinance Institutions Network (GHAMFIN) has led to a better understanding of the characteristics of microfinance loans and the methodologies underlying high repayment rates (Gallardo, 2002, p.14), and personal and group guaranteed loans are now recognized as secured microfinance loans.

2.16 Conclusion

This chapter reviewed the evolution of credit unions worldwide and specifically how it developed in Ghana. The objectives, features, challenges and operational strategies of Credit Unions.

Challenges of the economic liberation and the financial sector regulation, the Credit Union models, the need for microfinance in Ghana and the microfinance institutions were also touched on, stressing why they should be promoted and encouraged and Government interventions.

CHAPTER THREE

METHODOLOGY AND PROFILE

3.1 Introduction

This chapter deals with the methodology of the study, under the following sub headings Study area, population of study area, sample size, sources of data, methods of data collection, sampling techniques, data analysis and profile of study area.

3.2 Study Area

The study was conducted among three Credit Unions in the Sunyani Municipality, namely;

- Brong Ahafo Co-operative Credit Society for Development (BACCSOD), Cathedral Branch- Sunyani.
- Sunyani Municipal Teachers' Co-operative Credit Union Ltd (SMTCCU LTD)
- Sunyani Christians Co-operative Credit Union Ltd (SUCCOCU LTD)

3.3 Population of Study Area

The population of the study area was 1500 members of the three Credit Unions.

3.4 Sample Size

A sample size of One Hundred and Fifty (150) members and leaders of the three (3) Credit Unions were selected. This represented 10% of the population of the Study Area which in the opinion of the researcher was a fairly representative of the views of members.

3.5 Sources and Types of Data

Two main types of data were used. Primary data, which consisted of information gathered through interviews with management staff of the scheme, administering of questionnaires to selected members of the Credit Unions and an examination of the documents of the scheme.

Secondary data for the research was gathered through the use of books, journals newsletters, draft bill of credit unions and other documents on the operations of credit unions in Ghana, as well as the use of information sourced from the internet. These constituted the basis for literature review of the study.

3.6 Methods of Data Collection

The main methods of data collection used for the study were:

- Interviewing of principal informants and members and management of the Credit Unions
- Administering of questionnaires among 150 members and management staff of three (3) Credit Unions in the Sunyani Municipality.
- Observation of the methods of operation of the Credit Unions to determine their compliance with best financial and accounting principles and practices.

3.7 Sampling Techniques

The study employed both probability and non-probability sampling techniques.

Non-probability sampling technique (purposive sampling) was used to select the three Credit Unions in the Sunyani Municipality. This purposive sampling technique was used because of the need to get vibrant schemes for the study and more so the purposive sampling technique was used because Credit Union members needed to be specifically targeted for interviewing and administering of questionnaires.

Simple random sampling (probability sampling) was used to determine respondents within the three selected Credit Unions to provide each member of a given Credit Union, equal opportunity of being selected.

3.8 Data Analysis

Both quantitative and qualitative methods were employed in the analysis of data of the study. For the quantitative aspect, Statistical Package for Social Sciences (SPSS) was used. Frequency distributions, percentages, mean and descriptive analysis evaluating the impact of the Credit Union scheme on members was used to examine the research questions.

3.9 Profile of Study Area

The study area comprised three selected Credit Unions within the Sunyani Municipality, with 50 members from each stratum. These include:

- Brong Ahafo Co-operative Credit Society for Development (BACCSOD), Cathedral Branch- Sunyani.
- Sunyani Municipal Teachers' Co-operative Credit Union Ltd (SMTCCU LTD)
- Sunyani Christians Co-operative Credit Union Ltd (SUCCOCU LTD)

3.10.0 A brief background of the three Credit Unions is given below:

3.10.1 Brong Ahafo Co-operative Credit Society for Development (BACCSOD), Cathedral Branch- Sunyani.

The BACCSOD was established in 1987 and has operated for almost two and half decades. It has a total membership of over 700 as at the end of 2010. About 400 of the members reside in Sunyani. The Union operates from the Church's premises adjacent to the Nyamar L/A School. The office is managed by full-time Manager with six (6) staff under the direction of its Board of Directors.

3.10.2 Sunyani Municipal Teachers' Co-operative Credit Union Ltd (SMTCCU LTD)

The SMTCCU LTD was established in 1st November, 1989 and has been in operation a little over two decades. It has a total membership of over 1500 as at the end of 2010. About 800 of its members reside in the Sunyani Township.

The Union has put up an office premises on the compound of Nyamar L/A School adjacent to the Christ the King Catholic Cathedral. The office is managed by full-time manager with six (6) staff and directed by the Board of Directors.

3.10.3 Sunyani Christians Co-operative Credit Union (SUCCOCU LTD)

The SUCCOCU was established in 2004 and has operated for almost seven (7) years. It has a total membership of over 400 as at the end of 2010. About 300 of the members reside in Sunyani. The office of the Union is located in rented premises adjacent the Wesley Methodist Cathedral. The office is managed by full-time Manager with two (2) staff under the direction of its Board of Directors.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the results from the survey and interviews. The data gathered were edited so as to find out omissions and to correct inconsistencies were necessary. The questionnaires were coded, after which the variables were given sequential numbers.

Frequency counts of each category was made and presented in tabular forms showing frequency and percentage distributions of the trend of responses through the use of Statistical Package for Social Sciences (SPSS). The interpretation of the data was done per factors that constituted the framework for the research.

Frequency tables were used for the presentation of the survey results as it can be easily interpreted and understood, considering the audience and users of the report.

4.2 Personal Data of Respondents

Table 4.1

Sex Distribution of Respondents

Sex	No. Of Respondents	Percent (%)
Male	74	49.3
Female	76	50.7
Total	150	100

Source: Field Survey Data, May 2011

Table 4.1 shows the sex distribution of respondents. Out of 150 respondents, 74 were males representing 49.3 percent as against 76 females representing 50.7 percent.

Table 4.2

Age and Sex Distribution of Respondents

Sex	Age				
	20 – 29	30 – 39	40 – 49	50 – 59	Total
Male	12	26	20	16	74
Female	20	28	20	8	76
Total	32	54	40	24	150

Source: Field Survey Data, May 2011

Table 4.2 shows the Age and Sex distribution of the respondents. The majority of the respondents were in the age group of 30 – 39 years.

Table 4.3

Distribution of Respondents by Sex and Marital Status

Sex	Marital Status				
	Single	Married	Divorced	Widowed	Total
Male	25	44	3	2	74
Female	28	37	6	5	76
Total	53	81	9	7	150

Source: Field Survey Data, May 2011

Table 4.3 shows the Sex and Marital Status of respondents. Out of 53 respondents, 25 males and 28 females were single and out of 81 married respondents, 44 were males and 37 were females.

Table 4.4

Distribution of Sex and Educational Level of Respondents

Educational Level	Sex		
	Male	Female	Total
Univ./ Polytechnic	36	39	75
Training College	16	15	31
Snr. High/ Technical Sch.	14	12	26
Jnr. High/ Middle Sch.	8	10	18
Total	74	76	150

Source: Field Survey Data, May 2011

Table 4.4 shows the distribution of respondents by sex and educational level attained. There were 36 males as against 39 females having University/ Polytechnic education. Out of 31 Training College respondents, 16 were males and 15 were females. In the Senior High /Technical category, we have 14 males as against 12 females. 8 males and 10 females attended school up to the Junior High/ Middle school giving a total of 74 males as against 76 females.

Table 4.5

Distribution of Respondents by Occupation and Education

Educational Level	Occupation			
	Public /Civil Servant	Private Sector	Self-Employed	Total
Univ./Polytechnic	72	24	3	99
Training College	16	0	0	16
Snr. High/Tech. Sch.	0	12	3	15
Jnr.High/ Middle Sch.	4	4	12	20
Total	92	40	18	150

Source: Field Survey Data, May 2011

Table 4.5 shows that 92 respondents were at the Public/Civil Service, 40 were in the Private Sector and 18 were Self-Employed.

4.3 Financial Challenges

Table 4.6 Distribution of Welfare Challenges Faced by Members of the Credit Unions

Welfare Challenges	No. Of Respondents	Percent (%)
School Fees	90	60.0
Medical Expenses	40	26.7
Rent Advance	55	36.7
Home Improvement	30	20.0
Home Acquisition	25	16.7
Land	70	46.6
Car/Motor Bike/Bicycle	35	23.3
Funeral Expenses	5	13.3

Source: Field Survey Data, May 2011

Table 4.6 shows that the most pressing Welfare Challenge faced as a member of the Credit Union was School Fees (60%) whereas Funeral Expenses was the less pressing Welfare Challenge faced as a member of the Credit Union.

Table 4.7

Distribution of Business/ Investment Challenges Faced by Members of the Credit Union

Business/Investment Challenges	No. Of Respondents	Percent (%)
Land	56	37.3
Vehicles	56	37.3
Building	36	24.0
Equipment/Machinery	40	26.7
Business Inputs	60	40.0
Working Capital	76	50.7

Source: Field Survey Data, May 2011

Table 4.7 shows that the most pressing Business/Investment challenges faced as a member of the Credit Union was Working Capital (50.7) whilst Building was the less Business/Investment challenge faced as a member of the Credit Union.

4.4 Effects of Credit Union on Members

Table 4.8

Distribution of Personal/Welfare Facilities available within the Credit Union that could not be accessed prior to joining the Scheme.

Personal/Welfare Facilities	No. Of Respondents	Percent (%)
Loans for Educational Expenses	63	42
Loans for Medical Expenses	54	36
Home Acquisition/Improvement	21	14
Loans for Land	60	40
Loans for Car/ Motor Bike/Bicycle	42	28

Source: Field Survey Data, May 2011

In Table 4.8, Loans for Educational Expenses (42%) was the highest of the Personal/Welfare Facilities that could not be accessed by members prior to joining the Scheme, followed by Loans for Land (40%), Loans for Medical Expenses (36%), Loans for Car/Motor Bike / Bicycle (28%) and the last was Home Acquisition/Improvement Loans (14%).

Table 4.9

Distribution of Business/Investment Facilities available in the Credit Union that could not be accessed prior to joining the Credit Union.

Business/Investment Facilities	No. Of Respondents	Percent (%)
Loans for Land/Building	63	42
Loans for Vehicle	54	36
Loans for Equipment/Machinery	21	14
Loans for Business Inputs	60	40
Loans for Working Capital	42	28

Source: Field Survey Data, May 2011

Table 4.9 Loans for Land/Building (42%) was the highest of the Business/Investment Facilities that could not be accessed by members prior to joining the Scheme, followed by Loans for Business Inputs (40%), Loans for Vehicles (36%), Loans for Working Capital (28%) and the last was Loans for Equipment/Machinery (14%).

Table 4.10

Distribution of Personal/ Welfare Facilities Benefited by Members since joining the Credit Union

Personal/Welfare Facilities	No. Of Respondents	Percent (%)
Loans for Educational Expenses	88	58.7
Loans for Medical Expenses	20	13.3
Home Acquisition/Improvement	35	23.3
Loans for Land	20	13.3
Loans for Car/Motor Bike/Bicycle	36	24.0
Funeral Expenses	15	10.0

Source: Field Survey Data, May 2011

Table 4.10 shows Personal/Welfare Facilities benefited by members since joining the Credit Union, Loans for Educational Expenses (88%) being the highest and Loans for Funeral Expenses (10%) had the least responses.

Table 4.11

Distribution of Business/Investment Facilities Benefited by Members since joining the Credit Union

Business/Investment Facilities	No. Of Respondents	Percent (%)
Loans for Land/Building	25	16.7
Loans for Vehicles	25	16.7
Loans for Equipment/Machinery	36	24.0
Loans for Business Inputs	50	33.3
Loans for Working Capital	68	45.3

Source: Field Survey Data, May 2011

Table 4.11 shows Business/Investment Facilities benefited by members since joining the Credit Union, Loans for Loans for Working Capital (45.3%) being the highest and Loans for Land/Building and Loans for Vehicles (16.7%) each had the least responses.

Table 4.12

Distribution of Length of Time it takes to Qualify for Personal/Welfare Facilities

Duration	No. Of Respondents	Percent (%)
< 1 month	20	13.3
1- 3 months	36	24.0
4-6 months	79	52.7
10-12 months	50	3.3
> 12 months	10	6.7
Total	150	100

Source: Field Survey Data, May 2011

Table 4.12 shows how long it takes to qualify for Personal/Welfare facilities. It took 79 (52.7%) of the respondents as long as 4-6 months to qualify for Personal/Welfare loans and 5 (3.3%) of the respondents 10-12 months to qualify for the loan.

Table 4.13

Distribution of Length of time it takes to Qualify for Business/Investment Facilities

Duration	No. Of Respondents	Percent (%)
<1 month	25	16.7
1-3 months	43	28.7
4-6 months	67	44.7
7-9 months	3	2.0
10-12 months	8	5.3
>12 months	4	2.6
Total	150	100

Source: Field Survey Data, May 2011

Table 4.13 shows it takes 4-6 months (44.7%) for majority of the respondents to qualify for Business/Investment for loans and the longest time of greater than 12 months (2.6%) for Business/Investment loans.

Table 4.14

Distribution of Cost of Borrowing within the Credit Unions for Personal/Welfare Loans

Interest Rate	No. Of Respondents	Percent (%)
1-5	78	52
6-10	39	26
11-15	18	12
16-20	15	10
Total	150	100

Source: Field Survey Data, May 2011

Table 4.14 shows the Cost of Borrowing within the Credit Unions for Personal/Welfare Loans. Majority of the respondents (52%) borrowed at between 1-5 percent interest rate, followed by (26%) borrowing at between 6-10 percent interest rate. The rest had paid between 11-15 and 16-20 percent interest rate respectively representing 12% and 10%.

Table 4.15

Distribution of Cost of Borrowing within the Credit Unions for Business/Investment Loans

Interest Rate	No. Of Respondents	Percent (%)
1-5	65	43.3
6-10	20	13.3
11-15	28	18.7
16-20	26	17.3
21-25	7	4.7
26-30	4	2.7
Total	150	100

Source: Field Survey Data, May 2011

Table 4.15 shows that it Cost 65 respondents 1-5 percent interest rate to borrow within the Credit Unions for Business/Investment Loans and 4 respondents paid 26-30 percent interest rate.

Table 4.16

Distribution of Repayment Periods for Loans borrowed within the Credit Unions for Personal/Welfare Facilities

Duration	No. Of Respondents	Percent (%)
<6 months	12	8
6-12 months	84	56
12-24 months	54	36
Total	150	100

Source: Field Survey Data, May 2011

In Table 4.16, the commonest Repayment Duration for Personal/Welfare Loans within the Credit Unions was 6-12 months representing 56 percent of the responses with the shortest duration being less than six months.

Table 4.17

Distribution of Repayment Periods for Business/Investment Loans within the Credit Unions

Duration	No. Of Respondents	Percent (%)
<6 months	16	10.7
6-12 months	78	52.0
12-24 months	51	34.0
24-36 months	5	3.3
Total	150	100

Source: Field Survey Data, May 2011

Table 4.17 shows the Repayment Duration of Business/Investment Loans within the Credit Unions of which the highest response was 52 percent corresponding to 6-12 months and the least responses was 3.3 percent 24-36 months.

Table 4.18

Distribution of Performance Rating of the Credit Unions over the Past Five Years-2006-2010

Performance Rating	No. Of Respondents	Percent (%)
Excellent	12	8.0
Very Good	73	48.7
Good	51	34.0
Average	11	7.3
Poor	3	2.0
Total	100	100

Source: Field Survey Data, May 2011

Table 4.18 shows Performance Ratings of the Credit Unions over the past five years. On the whole 34 percent rated Good and 48.7 percent rated Very Good meaning most of the respondents were of the view that the Credit Unions over the years had performed creditably.

Table 4.19

The Effects of Credit Unions on the Standard of Living on its Members

Cash Loans in Thousands of Cedis (X)	Members who Assessed Loans (Y)	XY	X^2	Y^2
3.4	26	88.4	11.56	676
1.8	17	30.6	3.24	289
4.6	31	142.6	21.16	961
2.3	23	52.9	5.29	529
3.1	27	83.7	9.61	729
5.5	26	143.0	30.25	676
20.7	150	541.2	81.11	3860

Source: Field Survey Data, May 2011

Regression Equation $\hat{y} = \beta_0 + \beta_1 X_1 + \varepsilon$

$$\hat{y} = 16.565 + 2.445X_1$$

The regression co-efficient b= 2.445 indicates the change in Y per unit change in X_1.

H_0: There is no relationship of linear type between Y and X_1 i.e. $\beta_1 = 0$

H_1: Y is linearly related to X_1 i.e. $\beta_1 \neq 0$

Another measure of the usefulness of the model is the co-efficient of correlation, r which is 0.961. A high correlation provides further support that β_1 differs from 0. It affirms that improvement in living standards and loans given out by Credit Unions to their members are highly correlated.

4.5 Suggested Ways of Improving the Credit Unions

According to the respondents, the Credit Unions operations can be made more vibrant as follows:-

- Reducing the rate of interest charge further down
- Continuous education and media publicity to increase membership
- Activeness of Board of Directors/Auditors to check Management operations
- Timely repayments of loans for others to benefit
- Encourage more regular savings and buying of shares
- Loans given should be increased with less time for processing
- Loans given should not be based on one's total contribution but a little above
- Strict measures to recoup loans and where default, defaulters prosecuted
- Increase monthly contributions yearly if possible
- Regular monitoring of the Credit Unions by the Commissioner of Co- operative Societies to reduce embezzlement and ensure quality of service delivery
- The Unions should undertake investments ventures
- There should be efforts to network Credit Unions
- Timely and efficient delivery of services to the members
- Management should avoid unnecessary expenditure
- There should be the creation of healthy customer relation between management, members and the general public

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is concerned with the summary of findings, conclusions and recommendations on the study '**The effects of credit union activities on its members in the Sunyani Municipality**'.

5.2 Summary of Findings

The main objective of this research was to assess the effects of the credit union scheme on the living conditions of members.

The research sought to find answers to questions such as the financial challenges; Personal/Welfare and Business/Investment challenges faced by members, the adequacy of benefits and/or facilities available to members and the effect the Credit Unions have had on its members living standards.

The research revealed that with the financial challenges faced by members, school fees, land and rent advance dominated the request of the personal/welfare challenges.

With regards to the business/investment challenges faced by members, it was discovered that working capital and business inputs were most popular among the respondents request.

It came to light that the Credit Unions had certain facilities that are solely for the benefit of members. The facilities available were identified as: Loans for Educational expenses, Rent Advance, Medical expenses, Funeral expenses, Land Acquisition, Home Improvement, Vehicles/Cars/Motor Bikes/Bicycles, Equipment/Machinery, Working Capital and Business

Inputs.

The study revealed that it took majority of the respondents the duration of 4-6 months in order to qualify for both Personal/Welfare and Business/Investment loans with the annual interest rates ranging between 30% and 60% as against 24% and 31% by the Traditional Banks.

The study revealed that most of the members were considered to be regular and hence, makes regular deposits. Moreover, most of the members joined the Credit Union with the motive of making savings and acquiring loans flexibly.

It was disclosed that only members of the Credit Unions were given loans. However, the processing of the loan application was considered by members to be too long.

The study also disclosed that the Credit Unions had had tremendous positive effects on the living standards of the members. This was affirmed by the fact that members had access to loans for meeting their financial challenges which they would not have had readily from the Traditional Banks without collateral security.

The study revealed that the CUA has been re-organized into a two-tier system with a direct linkage between the primaries and the national association. The primary Credit Unions have further been grouped into ten Regional Chapters. This has enabled the CUA to centralize a number of functions at the national level. This development has led to the creation of a strong administrative component for CUA. This bureaucratic component exists together with the other representative decision making bodies of CUA, the Biennial Conference and the elected Board of Directors. Through this hybrid structure, CUA has been able to create a democratic organizational system and yet introduce financial and administrative disciplines in its organization.

5.3 Conclusion

The research revealed that despite the numerous significant financial challenges faced by members of the Credit Unions, it can safely be concluded that the Credit Unions were able to meet most of these challenges with Educational expenses being the predominant and the least were loans for Land/Building and Transport.

To be more competitive in the new Ghanaian environment the Credit Union Movement through their mother Association, CUA, has moved toward establishing a new Credit Union model to make the movement financially independent and competitive. This has involved the introduction of institutional policies, financial management disciplines, credit administration and improvements in management information systems.

There has also been a diversification of the products and services of CUA, the establishment of central services, the Central Finance Facility (CFF) and a risk management scheme, for the Credit Union Movement. These mark attempts to integrate the activities of the Credit Unions in Ghana and provide a central pool for funds for on lending.

5.4 Recommendations

As Savings and Credit Co-operatives (SACCOs) continue to grow and expand rapidly, serving more members and attracting extra deposits from members, there is the more need to strengthen their internal capacity to identify and anticipate potential risk by putting in place the proper systems and controls. The roles and responsibilities of managers and board members in risk management should be clearly defined so as to help in building stronger institutions as a comprehensive approach to risk management will reduce the risk of loss, build credibility in the SACCO movement and create new opportunities for its growth. The Credit Unions should embark on educative programmes to convince the young people in the target population to make the Credit Unions attractive to them by putting plans in place to assist members after retirement and also ensuring that there exist enough guarantees for the future apart from the Statutory Social Security Funds run by the government.

As the prime aim of every Credit Union is to improve the economic and social well being of its members. Customers in Ghana are price sensitive to banking services. They demand low interests for credit, convenient location and wide range of services. This has encouraged vigorous competition in the banking industry. For the Credit Unions to be competitive, they need to operate at low cost. This requires operational efficiency and scope economies. Furthermore, they would also need to combine effective product and service differentiation with low cost of operation. The CUA should endeavour to introduce new products and services as provided by the formal banking institutions in order to attract new members and to retain the existing ones.

Credit Unions, like other Microfinance Institutions have not received requisite attention from Central Governments. More attention is rather given to the large formal financial institutions. It is recommended that Central Government consider the following issues: support the Credit Unions in providing more training programmes for their staff; create a sustainable regulatory environment for the Credit Unions.

In addition to the development of Regional Credit Union Chapters, mergers among primary Credit Unions should be encouraged. Mergers enable Credit Unions combine their resources to acquire new technology, employ professional staff, centralize functions and introduce new products and services. Mergers should be seen as an important mechanism for deploying Credit Union assets to most efficient use, bringing about better management and a means to diversify membership base, (cost reduction). This therefore, offers a way of consolidating efforts of the primary Credit Unions at making them more competitive. The mergers of Credit Unions should be based on poor asset quality, inadequate reserves, profitability and high administrative costs.

CUA Ghana must move from a regime of low interest rates, payable on savings and other facilities offered by the Central Finance Facility, to rates that will ensure viability, sustainability and growth for the benefit of all members.

The CUA's over-dependence on donor/external assistance should generally be replaced by a policy geared towards self-sufficiency and increasing reliance on self-generated funds. This way, it can attain sustainability and growth more quickly.

From the findings of the study, the Credit Unions were not able to fulfil readily the financial challenges of their members. Due to this, it took most of the members four to six months before getting the needed assistance. There is therefore the need for the Unions to use their funds mobilized as collateral to secure loans from the Traditional Banks in order to increase their capacity to meet the financial demands of their members.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST)

INSTITUTE OF DISTANCE LEARNING

COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION (CEMBA)

A QUESTIONNAIRE DESIGNED FOR MEMBERS OF SELECTED CREDIT UNIONS IN SUNYANI MUNICIPALITY.

ON THE TOPIC: THE EFFECTS OF CREDIT UNION ACTIVITIES ON ITS MEMBERS - A CASE STUDY OF SELECTED CREDIT UNOINS IN SUNYANI MUNICIPALITY.

YOUR RESPONSES TO THESE QUESTIONS WILL BE KEPT HIGHLY CONFIDENTIAL AND FOR ACADEMIC PURPOSE ONLY.

PLEASE TICK [√] WHERE APPLICABLE

SECTION A: PERSONAL DATA

1. Sex: Male [ ] Female [ ]

2. Age: Below 20 [ ] 40 - 49 [ ]

20 – 29 [ ] 50 - 59 [ ]

30 – 39 [ ] 60 and above [ ]

3. Marital Status: Single [ ] Married [ ]

Divorced [ ] Widowed [ ]

Others (Specify) ---

4. Educational level completed:

University/Polytechnic ☐ Senior High/Technical School ☐

Junior High/Middle School ☐ Primary School ☐

Others (Specify) ---

5. Occupation: Public/Civil Servant ☐ Private Sector ☐

Self-Employed ☐ Unemployed ☐

Others (Specify) ---

6. Name of Credit Union ---

SECTION B

FINANCIAL CHALLENGES

7. Indicate three (3) most pressing personal/welfare challenges you face as a member of the Credit Union.

School Fees ☐ Home Acquisition ☐

Medical Expenses ☐ Land ☐

Rent Advance ☐ Car/Motor bike/Bicycle ☐

Home Improvement ☐ Funeral Expenses ☐

8. Indicate three (3) most pressing business/investment challenges you face as a member of the Credit Union

Land	☐	Equipment/Machinery	☐
Vehicles	☐	Business Inputs	☐
Building	☐	Working Capital	☐

SECTION C

EFFECTS OF CREDIT UNIONS ON MEMBERS

9. Indicate from the list of personal/welfare facilities available within the credit union that you did not access before joining the union.

Loans for Educational Expenses	☐	Loans for Land	☐
Loans for Medical Expenses	☐	Loans for Home acquisition/improvement	☐
Loans Cars/Motor bikes/bicycles	☐	Others (Specify) ----------------------------------	

10. Indicate from the list of business/investment facilities within the credit union that you did not access before joining the union.

Loans for Land/Buildings	☐	Loans for Business Inputs	☐
Loans for Vehicles	☐	Loans for Working Capital	☐
Loans for Equipment/Machinery	☐	Others (Specify) ---------------------------	

11. From which of the following personal/welfare facilities have you benefited, since you joined the Credit Union?

Loans for Educational Expenses ☐ Loans for Land ☐

Loans for Medical Expenses ☐ Loans for Home acquisition/improvement ☐

Loans Cars/Motor bikes/bicycles ☐ Others (Specify) ----------------------------------

12. From which of the following business/investment facilities have you benefited, since you joined the Credit Union?

Loans for Land/Buildings ☐ Loans for Business Inputs ☐

Loans for Vehicles ☐ Loans for Working Capital ☐

Loans for Equipment/Machinery ☐ Others (Specify) ---------------------------

13. How long did it take you to qualify for the personal/welfare loans, if any?

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14. How long did it take you to qualify for the business/investment facilities, if any?

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15. What is the interest rate (%) for personal/welfare loans in your Credit Union?

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16. What is the interest rate (%) for business/investment loans in your Credit Union?

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17. How long does it take to repay Personal/welfare loans within your Credit Union?

----

18. How long does it take to repay business/investment loans within your Credit Union?

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19. How will you rate the performance of your Credit Union over the past five (5) years?

Excellent ☐ Average ☐

Very Good ☐ Poor ☐

Good ☐

20. “Credit Unions have a tremendous effect on the standard of living of their members”.

I strongly agree ☐ I strongly disagree ☐ I disagree ☐

I agree ☐ I do not know ☐

21. How can the operations of your Credit Union be improved upon to make it more vibrant?
