OUTREACH OF MICROFINANCE INSTITUTIONS: EVIDENCE FROM MICROFINANCE INSTITUTIONS IN KUMASI METROPOLIS

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<u>**DECLARATION**</u>

I hereby declare that this submission is my own work towards the MSc 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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ABSTRACT

This study assesses outreach performance of Microfinance Institutions (MFIs) in the Kumasi metropolis with the aim of suggesting mechanisms by which outreach can be expanded. The study was important because for practitioners, increased understanding of the target market and whether it is being reached can help in the design of financial services better suited to the needs of different groups of clients. And for donors, to provide insights as to who is being reached in terms of poverty levels that can be used to inform allocation of public funds to supporting institutions in the microfinance industry (Simanowitz, 2003). Hence the need for a more detailed assessment of outreach degree, conditions of those reached and factors that influence outreach can not be overemphasized.

The study adopted a flexible methodology that used multiple tools to assess outreach performance from multiple scenarios. *CGAP Format for Appraisal of Microfinance Institutions*, which contains rigorous set of outreach indicators, was one of the tools used for measuring outreach performance. The CGAP tool was however complemented with assessment of the logistical infrastructure of the MFIs. Against this background outreach was analysed in three main parts. The first part analysed degree of outreach mainly in terms of number of clients served and volume of services. The second part was devoted to examining socioeconomic levels of clients and the last part was however devoted to evaluating factors that influence outreach.

The literature review had identified a number of factors that influenced outreach namely: Availability of loanable funds, High operational cost, Risk factors and a scalable state of infrastructure particularly ICT. These factors further formed the benchmarks for assessing outreach performance in the study.

Averagely MFIs reached a total of 46,057 borrowers and 70,534 savers which represent penetration levels of 7.6 percent (borrowers) and 12 percent (savers) as against the potential client's population of 603,812 clients. This accounted for Borrowers to Savers

Ratio of 0.65, which depicts the reporting institutions, served about two times more voluntary savers than borrowers. In terms of quantum of funds, a total amount of GH¢16,483,919 was disbursed among 46,057 borrowers which yields an average loan size of GH¢358 per borrower. Poverty levels of clients by income levels shows that 75 percent of clients were poor even though clients' poverty level measured in terms of average outstanding balance proved otherwise. However women dominate the industry accounting for 80 percent of clients' population. While findings on outreach determinants concludes that Availability of fund, Delinquency of loan and Number of loan officers affects outreach performance, yet the study was not conclusive on Operational Sustainability and outreach hence the need to be researched again under a wider scope for further conclusion.

In order for outreach to be expanded, the study recommends efficiency in MFIs operation, staff upgrading, and proper group formation stages should be ensured by the MFIs in order to reduce delinquency of loans. Government support should include direct credit coupled with credit guarantees for the MFIs. Government should also consider regulatory review that prohibits FNGOs from mobilizing savings from the public. This would increase available fund for on-lending which will encourage outreach to more marginalised, and less accessible poorer clients. On the other hand the local government should also enhance MFIs operation through the provision and development of essential infrastructure to support their enterprises. The study therefore concludes that a key strategy to expand outreach requires that government creates the enabling environment that allows for the development of more MFI services in the country.

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SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

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ACRONYMS

AfDB	African Development Bank
BOG	Bank of Ghana
BRI	Bank Rakyat Indonesia
CBN	Central Bank of Nigeria
CBOs	Community Based Organisations
CBRDP	Community Based Rural Development Project
CGAP	Consultative Group to Assist the Poor (Poverty Assessment Tool)
CUs	Credit Unions
ENOWID	Enhancing Opportunities for Women in Development
FNGOs	Financial Non-governmental Organisations
GCSCA	Co-operative Susu Collectors Association
GDP	Gross Domestic Product
GHAMFIN	Ghana Microfinance Institutions Network
GSS	Ghana Statistical Service
GNI	Gross National Income
GNP	Gross National Product
GLP	Gross Loan Portfolio
ICT	Information Communication Technology
IFPRI	International Food Policy Research Institute
KMA	Kumasi Metropolitan Assembly
MASLOC	Micro-Credit and Small Loan Centre
MBB	Micro Banking Bulletin
MCA	Millennium Challenge Account
MFIs	Micro Finance Institutions
MDGs	Millennium Development Goals
MoFEP	Ministry of Finance and Economic Planning
NBSSI	National Board for Small-Scale Industries
NGOs	Non-governmental Organisations
OSS	Operational Self-Sufficiency

PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment
PRP	Poverty Reduction Project
RCB	Rural Commercial Bank
RMFIs	Rural and Micro Finance Institutions
S&Ls	Savings and Loans Companies
SIF	Social Investment Fund
SME	Small and Medium-Scale Enterprises
UNDP	United Nations Development Programme
UPRP	Urban Poverty Reduction Program
VIPs	Village Infrastructure Projects

CHAPTER ONE
GENERAL OVERVIEW

1.0 Background

Microfinance provides an effective and equitable way of creating the conditions for long-lasting development because microfinance and its links with community-based education foster conditions for the poor to have long-term access to health, education, improved living conditions, development of enterprise and a means for dealing with emergencies or old age. There are approximately 3000 microfinance institutions (MFIs) spread across the world, serving more than 70 million people and globally it is becoming a key step in breaking the poverty trap, especially for women, and is working towards providing financial inclusion to the 80 percent outside the formal financial services (Simanowitz, 2003). According to Imp-Act, a global action research programme designed to improve the impacts of microfinance on poverty, the growth of microfinance over the last 10 years has demonstrated that poor people can make use of financial services.

Therefore, the use of microfinance as a major strategy for poverty reduction in developing countries, including Ghana, is increasingly being perceived as an effective tool for poverty reduction in the developing world. This perception has led to much support for the increase of resources to the microfinance industry. Indeed, microfinance has become one of the crucial driving mechanisms towards achieving the Millennium Development Goals (MDGs), especially concerning the target of halving extreme poverty and hunger by 2015 (Fernando, 2004).

According to Littlefield (2003) it is essential that microfinance organisations (MFOs) reach poor and very poor clients, and therefore measurement of poverty outreach becomes an important proxy indicator for the success of microfinance institutions. It will however be necessary to support MFIs in their innovations to increase their scale in terms of number of clients and volume of activity. In view of the above, this study is aimed at analysing the extent to which MFIs have performed in terms of outreach in Ghana and precisely Kumasi. Essentially the study is aimed at donors, policy-makers and practitioners interested in the mechanisms by which outreach can be expanded. The research seeks to not only offer a new in-depth analysis on outreach performance, but also to identify strategies that would enhance efficiency in MFIs operations with the expressed objective of expanding outreach to clients.

1.1 PROBLEM STATEMENT

According to the World Bank (2005), the global MFIs penetration by country threshold is about 5 percent. This implies that the informal financial institutions generally have limited outreach due primarily to scarcity of loanable funds and as a result, the size of the unserved market by existing financial institutions is fairly large (about 95 percent). According to the United Nations report on the Role of Microfinance in African Development (2005), micro-credit currently serves only 2 percent of the poor in Africa.

According to Ghana 2000 Population and Housing Census, 80 percent 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. However trends in loans and advances extended to small businesses, individuals and groups by the Non-Bank Financial Institutions (NBFIs) in Ghana amounted to GH¢70.63 million in 2003 and increased to GH¢72.85 million in 2004, suggesting 3.1 per cent growth. In 2005 a total of GH¢78.31 million was extended to clients, which increased to GH¢160.47 in 2006, this represents 48.8 per cent higher than the previous year's total loans. The upward trend indicates marked improvements in level of microfinance in the country (Bank of Ghana, 2007). The government of Ghana has also intervened by instituting governmental micro credit schemes as part of the country's integrated programme to reduce poverty particularly among the low income groups. While in some instances this has served to make wholesale funds available to local MFIs for on-lending, more commonly it has been perceived and used as politically motivated loans, with negative consequences for repayment (Steel and Andah, 2004).

The commercial banking system, which has about twenty-three (23) major banks, reaches only about 5 percent of households and captures 40 percent of money supply mainly in the formal sector (Bank of Ghana, 2007). This suggests that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor in Ghana. They typically mention risks of default, high cost of delivery, socio-economic factors, limited logistics and infrastructure as among the main reasons that prevent their entry into the microfinance industry. With 60 percent of the money supply outside the commercial banking system, the role of MFIs in Ghana's private sector development and poverty reduction strategies can not be overemphasized. MFIs use different methodologies to reach different clientele among farmers, rural households, the poor, and micro-enterprises. Therefore there is the potential for expanding the microfinance sector in Ghana (Bank of Ghana, 2007).

However, there is apparent fragmentation and lack of coordination among the MFIs and other key stakeholders. Approaches to, and methodology for, data and information gathering at the national level are not uniform, making it difficult to centrally monitor progress of the sub-sector. There is a lack of well defined reporting system by both the government and development partners with regard to their interventions, and hence there is inadequate database to measure degree of outreach penetration in the country (Bank of Ghana, 2007).

There is therefore a need to put outreach on the agenda. MFIs need to be clear who they wish to serve and why. At the same time, donors should be making funding decisions based on clear statements as to who that funding is designed to reach, and whether it is effective in doing so. For this to occur, outreach needs to be treated as a significant, tangible and measurable quality. To address this challenge, clear and cost-effective assessment and measurement procedures need to be put in place which allow for reporting on both who is being reached and what are their socioeconomic conditions. In an attempt to find solutions to the above problems, this study seeks to investigate the extent of outreach of MFIs by probing into the following questions:

1.1.1 Research questions

1. How many, and what proportion of households do MFIs reach?
2. What is the spatial distribution of MFI clients?
3. What are the socioeconomic conditions of MFIs target groups?
4. What factors influence outreach?
5. What strategies can expand outreach to potential clients who do not have access to micro credit?

1.2 GENERAL OBJECTIVE

The main objective of this study is to analyse outreach levels of microfinance institutions in Kumasi metropolis in order to come out with policy recommendations and strategies geared towards expanding outreach to needy households.

1.2.1 Specific Objectives

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

- **i.** To analyse current level of outreach of MFIs activities in Kumasi metropolis;
- **ii.** To determine the number of people reached and how much services or funds are extended to them in relation to the potential clients population;
- **iii.** To determine the spatial distribution of clients and its relationship with total outreach in the metropolis;
- **iv.** To examine the socio-economic conditions of the target groups of MFIs in order to know those who are reached in terms of their poverty levels;
- **v.** To analyse the determinants of the depth and breath of outreach and its link with outreach performance;
- **vi.** To make policy recommendations and propose strategies that would achieve deeper and wider outreach levels in the country.

1.3 SCOPE

Against the background of time, logistics and financial constraints, the study focused on an urban setting of Ghana because firstly, about 33 percent of the country's poor live in urban areas and it is this area that has a high concentration of informal economic activities (USAID, 2002). In light of the above therefore, Kumasi metropolis is being considered for this study because not only is Kumasi the second largest city in Ghana but also, it is the fastest growing nodal commercial city with varied levels of informal sector activities converging from both the North and South of the country. The majority of the people who are at the lower end of the economic ladder are engaged in micro and small-scale business activities for their survival (World Bank, 2006). In terms of content, the study covers the extent and depth of outreach by examining indicators that measure outreach performance. It also determines socioeconomic levels of clients and their spatial distribution. However the scope further explores indicators that influence outreach of MFIs. These indicators include: profitability and sustainability, number of loan officers and finally the logistical capacity of the MFIs.

1.4 SIGNIFICANCE OF THE STUDY

The output of this research would generate data concerning MFIs and identify the current trends of financial service providers for low-income people in the region. It also seeks to demonstrate the extent to which MFIs have provided sustainable financial services to poor households who are otherwise excluded from the formal banking system for lack of collateral. The assessment of outreach of MFIs is beneficial for both practitioners and donors. For practitioners, increased understanding of the target market and whether it is being reached can help in the design of financial services better suited to the needs of different groups of clients. It would also assist MFIs in developing credible internal information systems that would inform strategic decisions based on both financial and social performance data. The study would also provide information for donors, to develop internationally comparable benchmarks on poverty outreach and further provide insights as to who is being reached in terms of their living conditions and poverty levels that can be used to inform allocation of public funds to supporting microfinance institutions

(Simanowitz, 2003). Finally, the research would also contribute to knowledge and literature by providing information particularly on ways of increasing client outreach which could be used by researchers for the purpose of making analytical comparisons of the MFI sector in Kumasi in particular and Ghana in general.

1.5 RESEARCH DESIGN AND METHODOLOGY

The method of a research describes the procedures that have been followed in conducting the study. The steps employed are described in detail below:

1.5.1 Research Design

The Case Study Approach was the main driver for this research. Case Study Approach is an empirical enquiry that allows the researcher to investigate and understand the dynamics of a system (i.e. Microfinance outreach). This approach is adopted because the study is aimed at exploring the details of microfinance outreach to clients within a real life situation. Selected microfinance institutions in Kumasi metropolis were used as the case studies.

1.5.2 Units of Analysis and Variables

Two main units were considered. They are Micro finance institutions (MFIs) and their clients. Variables analysed with regard to the institutions were mainly outreach variables. They include: number of Borrowers and Savers, Gross Loan Portfolio (GLP), Savings, Loan officers and their Case load, Outstanding Loan and Saving balances, and the last but not the least Logistical capacity of the MFIs. However variables analysed with regard to clients were essentially their socioeconomic conditions. Variables considered include: business enterprise, spatial location, gender distribution, asset acquisition and finally access to social services.

1.5.3 Sampling Approach: Criteria for Selecting MFIs and Clients

1.5.3.1 Institutions

The sample frame covers Financial Non-governmental Organisations (FNGOs) and Savings and Loans (S&Ls) MFIs which have a minimum of 4 years of operation with more than one branch in Kumasi metropolis. The time dimension was to ensure that the selected MFI would be able to provide time series data to enable the researcher analyse outreach performance. The selection was also limited to MFIs that are registered with Ghana Microfinance Institutions Network (GHAMFIN) and are willing to share in-depth data. Based on the defined sample frame above, 7 MFIs comprising 4 S&Ls and 3 FNGOs were listed. However at the time of writing this report, only 5 institutions had provided outreach data to the researcher for the period 2004 to 2007. Out of these, 3 were from FNGOs and the remaining 2 were from S&Ls (Table 1.1).

Table 1.1 Sample size determinations for MFIs

Institution	Provided data	Sample Frame	Sample Size	Sample Fraction (%)
S&Ls:				
1.Opportunity International	Yes	4	2	50
2. Garden City LTD	Yes			
3. First Allied	No			
4. Pacific	No			
FNGOs:				
1.Cedi Finance Foundation	Yes	3	3	100
2. New page	Yes			
3. Sinapi Aba Trust	Yes			
Total		7	5	-

1.5.3.2 MFI Clients

In order to accurately reflect the socio-economic conditions of clients, the study focused on clients with a maximum of 12 months experience on the schemes. This was because clients who have taken more than one loan might have experienced economic transformations in their livelihoods thus might not adequately reflect their true poverty conditions before joining the scheme. Since clients' populations were so large, the total sample frame could not be fully determined due to lack of accurate data from the reporting MFIs, hence uniform sample sizes of 20 clients each were randomly selected from the 5 MFIs. However efforts were made to interview different categories of clients defined by gender, business enterprise and spatial locations, and this was reflected in the analysis of outreach results discussed later in chapter four of this report. Details of uniform sample sizes for the 5 reporting MFIs are illustrated below in Table 1.2.

Table 1.2 Uniform sample size determinations for MFI clients

Institution	**Size**
S&Ls:	
1.Opportunity International (OI)	20
2. Garden City LTD (GCL)	20
FNGOs:	
1.Cedi Finance Foundation (CFF)	20
2. New page (NP)	20
3. Sinapi Aba Trust (SAT)	20
Total Sample size	**100**

1.5.4 Data Collection Procedures

1.5.4.1 Secondary Data

Secondary data were collected from reports, publications, and books. The type of secondary data collected was mainly on outreach and indicators for measuring outreach performance of MFIs. Specifically, documented sources of secondary information include:

- GHAMFIN: This source collects information on outreach performance of MFIs in Ghana. Types of data collected include, Gross loan portfolio, Savings, Number of Borrowers and Savers and outreach penetration.

- The CGAP Poverty Assessment Tool (PAT). This source provides information on outreach appraisal tools and its applications. Data collected on outreach assessment tools include, Operational Self Sufficiency (OSS), Risk analysis, Case load and Client poverty levels using average outstanding balances.

- Another source of information was the internet. The study utilized information on the subject matter through publications on the internet. Details of these publications were listed in the reference section after the last chapter.

1.5.4.2 Primary Data

The study employed two main survey instruments namely semi-structured questionnaires and key informant interviews to collect both quantitative and qualitative data from the MFIs and their clients. In line with the objective of the research, thus three types of primary data were collected. The first type borders on the degree of outreach defined in terms of number of borrowers and savers, outreach volume in terms of gross loan portfolio, level of savings mobilized and so forth. The second type includes outreach determinants such as risk factors, operational sustainability and a scalable state of infrastructure. These two types of information above were collected from the MFIs. Key informant interviews were also conducted with contact persons from the MFIs in order to gather additional information and also probe for further clarifications on outreach issues.

The third type of primary data was provided by MFI clients, which covers their socioeconomic conditions. Quantitative Data collected from clients include income, household size, asset acquired and so forth whereas qualitative data covers poverty conditions of clients. A total of 100 semi-structured interview guides were used to collect the above information from the clients.

1.5.5 Analysis and Presentation of Outreach information

Outreach information was systematically analysed along three main lines. The first part analysed outreach with regard to the extent and depth of outreach. This was followed by assessing the conditions of those reached. Finally the last segment examines the factors that influenced outreach. In line with the above objectives, analysis of data consisted of categorizing, examining, tabulating and interpreting the data in a form that will elicit the true meaning and respond to the set objectives. Combinations of qualitative and quantitative analytical methods were applied in data analysis. Qualitative analysis includes deductions from statements and field note books through interviews conducted. Quantitative tools such as percentages, ratios and proportions were mainly used for analysis and synthesis of data. Aggregated data was largely presented to depict degree of outreach and disaggregated data was presented to reflect conditions of those reached and also for drivers of outreach. Where appropriate, variables were cross-tabulated in order to show relationships between them. Comparative analyses with peers in Ghana and within African regions were also made to put outreach performance in to perspective. Data ware however presented mainly through the use of statistical tables, percentages, charts, graphs and in some cases absolute numbers.

1.5.6 LIMITATIONS

There was difficulty in getting organised financial data from the MFIs due to poor up-to-date record keeping habits. Notwithstanding this, the study was able to cross-check outreach data from audited financial statements of the MFIs hence ensuring accuracy and reliability of data. Though statistically the study did not survey all MFIs in the metropolis yet, efforts were made to survey the biggest MFIs defined by geographic spread, loan portfolio and number of borrowers and savers in order to make it an approximate representation of the MFI industry in the Kumasi metropolis.

1.6 ORGANIZATION OF REPORT

This report organized outreach analysis into five chapters. The general overview of the study was presented in chapter one which detailed out the background, objectives, scope and the methodology employed in writing this report. The second chapter reviewed theoretical and analytical issues. Particularly it examines outreach within the global context and discusses issues such as the scale and volume of outreach, financial penetration and eventually coming out with factors that drivers outreach in the global setting. Chapter three subjects the study area in to perspective by estimating the potential informal sector population as against the scale of MFIs activities in the metropolis. The dynamics of the informal economy was also explored coupled with the macroeconomic environment that MFIs operate in. Outreach trends and characteristics were analysed in chapter four in terms of volume of services offered, determinants of outreach, and the socioeconomic levels of clients. Finally, the summary of findings was presented in chapter five after which recommendations were made geared towards expanding outreach.

CHAPTER TWO
THEORETICAL AND ANALYTICAL ISSUES

2.0 Introduction

The microfinance industry promotes the dual objectives of sustainability of services and outreach to the very poor. Against this background this section reviews a range of issues concerning the objective of MFIs outreach to the poor. Firstly, it examines the global evidence and followed it with the scale of outreach in Ghana. The application of outreach assessment tools of MFIs was also reviewed. However the last section of the review was devoted to analysis of macroeconomic environment in Ghana in terms of inflation and interest rates in order to determine their influence on credit.

2.1 GLOBAL OVERVIEW OF MFIs IN THE DEVELOPING WORLD

A global survey of MFIs from 85 developing countries shows 1,500 institutions (790 institutions worldwide plus 688 in Indonesia). The MFIs reach 54 million members, 44 million savers, and 17 million borrowers and have also developed 46,000 branches. The total volume of outstanding credit is $18 billion. The total savings volume is $13 billion or 72 percent of the volume of the outstanding loans and employs about 175,000 staff (Lapenu, 2001). This represents a notable volume of savings in view of the frequent critics against MFIs, which focus more on credit at the expense of savings mobilization. Of course, if MFIs were to distribute loans from the mobilized savings, the current amount is still insufficient. If the figures were viewed from the perspective of the population of developing countries, the global outreach of microfinance on average for developing countries is 1.5 percent of their total population (Lapenu, 2001).

In terms of geographic location MFIs are predominantly working in both urban and rural areas, presumably to diversify their portfolio of liabilities and assets. Averagely only 19.5 percent of MFIs specialize in rural areas where the majority of the poor (60 percent) in the developing world live. African and Latin American MFIs work mostly in urban and rural environments (92 and 65 percent of the members in urban and rural areas respectively), while Asian MFIs focus more on rural areas (75 percent of the members). In Africa and Latin America, the relatively low presence of MFIs in rural areas, even though the populations are predominantly rural, implies that the rural depth of outreach is low. In particular, agricultural finance for smallholders remains underexploited (Lapenu, 2001).

Table 2.1 Average Outreach Performance of MFIs, by Continent

Indicators	Latin America	Africa	Asia	Total
Number of MFI	135	327	1038	1500
Percentage of MFI	9	21.8	69.2	100
Number of Members	7m	5m	42m	54m
Percentage of members	13	9.3	77.7	100
Average percentage of female	73.3	69.9	87.8	
Total loan disbursed/outstanding	5.85m	0.468m	11.682m	18m
Percentage of loan disbursed	32.5	2.6	64.9	100
Average loan ($)	418	261	153	
Average loan as percentage of per capita GDP[1]	33	82	35	
Average deposit ($)	590	75	62	
Average deposit as percentage of per capita GDP	20	24	7	

Source: IFPRI surveys on worldwide MFIs, 1999.

Table 2.1 shows that about 135 MFIs are located in Latin America, 327 in Africa and as many as 1038 MFIs can be found in Asia as compared to the other two continents. Hence Asia has the biggest MFI concentration in the developing world. Out of the 54 million population of MFI members Asia alone accounted for as high as 78 percent, the next higher number (13 percent) is recorded in Latin America with the least population of MFI members accounted for by Africa (9 percent). In terms of financial penetration, a total amount of 18 million was disbursed in the developing world. The highest penetration was accounted for by Asia (65 percent) and this was followed by Latin America with 33 percent. Africa again recorded the lowest financial penetration of about 3 percent.

[1] African MFIs have very high per capita GDP because generally they have very low GDP as compared to other continents.

Asia recorded the smallest average loan ($153), followed by Africa ($261) and finally Latin America accounting for the biggest average loan ($418). This implies that Asia focused more on poor clients at the lower end of the poverty level mainly in the rural areas as compared to their counterparts in Africa and Latin America (Table 2.1). From Table 2.1 above, Asia reaches significantly more women (88 percent), than Africa (70 percent) and Latin America (73 percent). The largest transactions take place in Latin America, the smallest in Asia. Interestingly, in terms of percentage of per capita GDP, Africa has the largest (82 percent) transactions because of their relatively low GDP figures. If African MFIs wish to increase their depth of outreach, they would need to decrease the volume of transactions. According to Christen (1999) the best results in terms of depth (socioeconomic level of clients) of outreach are usually achieved by the models that delegate part of the distribution and supervision of the loans to non-salaried workers.

2.1.1 Factors Influencing Global MFIs Outreach

The presence of a banking structure that may be publicly-owned in the rural areas, can enhance the breadth (number of clients served and volume of services) of outreach for microfinance because, it allows high coverage of the rural population. The case of the state-owned Bank for Agriculture and Agricultural Cooperatives in Thailand, which reaches 80 percent of the 5.6 million families, is impressive and unprecedented in developing countries (Yaron, and Piprek 1997). The success of the BRI village unit network in Indonesia underscores the role of large initial financial investment from the state. In 1996, 95 percent of the units were profitable; they reached 16 million savers and 2.5 million borrowers. The microfinance institutions use the banking structure to secure their activities and lower their transaction costs (Yaron, and Piprek 1997).

Secondly Ndiaye (2005) observed that MFIs tend to locate in places where there is high concentration of economic activities. The type of economic activity influences MFIs outreach and this is evident by the comparatively high concentration of MFIs in the urban areas than the rural areas because of the perceived production and marketing risks associated with rain-fed agriculture activities. In addition to the risks, is the dispersed and remoteness of the rural population. These factors lead to high tendencies for doubtful debts and loan portfolio quality with its associated high transaction cost for the MFIs in advancing credit (especially agricultural credit) to rural and urban peasant farmers (Ndiaye, 2005). Similarly there are also strong incentives for the networks to be located in the wealthier areas to obtain better performances. In Bangladesh, NGOs tend to follow the logic of the market and are concentrated in areas where the market is well-developed and people have started to articulate their needs as effective demand. The same observations have been made in Madagascar and India (Zeller and Sharma 1996), though this could be aggravated by competition among the networks and the geographical areas such that, it could result into saturation of the market in these areas thus affecting outreach negatively.

Ndiaye (2005) further argued that apart from infrastructure constraints in terms of communication and technology problems that increase the transaction costs both for borrowers and lenders, availability of funds for on-lending influences outreach. This is because, commercial banks still lack competency to assess the risk related to funding MFIs for refinancing to a broader range of clientele. The inability to effectively assess risk factors affects access to financial resources from the banks by the MFIs for on-lending.

Kabeer and Murthy (1996) also noted that state regulation also influences MFIs outreach. In India a major justification for the nationalization of banks in 1969 was to force them to extend their lending to the rural areas in general and to the rural poor in particular. Currently there are approximately 126,000 public financial institutions or branches spread over India, implementing 25 poverty alleviation schemes. The Viet Nam Bank for Agriculture was created by the state in 1990; it is a commercial bank using the classical banking criteria to distribute loans (such as physical guarantees and analysis of risks). By 1996, it had a substantial nationwide outreach with more than 1,800 branches spread over the country (Kabeer and Murthy 1996).

2.1.2 Findings of Global Outreach

The global evidence showed that MFIs provide extensive coverage of Asia, Africa, and Latin America. Even though Africa is very active in the field of microfinance, yet the continent still faces the constraints of poverty and illiteracy, both of which limit transaction volume. Moreover, loan sizes are already high (82 percent) for Africa when expressed as a percentage of per capita GNP, and increasing the size of loan transactions would endanger the depth of outreach. This suggests that Africa still has relatively lower outreach, which calls for continued efforts to improve rural and agricultural finance. The literature review also pointed to the following as the key factors that influence global outreach of MFIs in the developing world:

- High transaction costs
- Spatial location and concentration of MFIs in a particular region
- Concentration and viability of economic activity (risk factors)
- Availability of loanable funds
- ICT infrastructure

In order for MFIs to increase their outreach to the poor, they require stable macroeconomic and political environments to develop. Therefore for sustainable development of the poor and rural economy, the focus should be on the development of rural infrastructure and economy, otherwise there will be few activities requiring finance.

2.2 Outreach Performance of Rural and Micro Finance Industry in Ghana

2.2.1 Introduction

This section analyzes the different types of rural and micro finance institutions (RMFIs) in Ghana and their financial products, from the more formal and licensed to the less formal and unregulated. The financial system in Ghana falls into three main categories: formal, semi-formal, and informal. The term "rural and micro finance institutions" (RMFIs) is used to refer collectively to the full range of these institutions though, recognizing that they use different methodologies to reach different clientele among farmers, rural households, the poor, and micro-enterprises. There are different models of RMFIs in Ghana hence this section discusses outreach performance with respect to the different types and methodologies used to reach target groups.

2.2.2 Categories of MFIs in Ghana

Formal financial institutions are those that are incorporated under the Companies Code 1963 (Act 179), which gives them legal identities as limited liability companies, and subsequently licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 (PNDCL 225) or the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328) to provide financial services under Bank of Ghana regulation. Most of the banks target urban middle income and high net worth clients. Semi-formal institutions are those that are formally registered, but are not licensed by the Bank of Ghana. Their poverty focus leads them to relatively deep penetration to poor clients using microfinance methodologies, though mostly on a limited scale. However The Informal Financial System covers a range of activities known as "*susu*", including individual savings collectors, rotating savings and credit associations, and savings and credit clubs run by an operator. It also includes moneylenders, trade creditors, self help groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under Moneylenders Ordinance 1957.

2.2.3 Outreach Performance of MFIs

A. Rural and Community Banks (RCBs)

The Rural and Community Banks are licensed to provide financial intermediation in the rural areas without banking facilities. RCBs have increased from 117 in 2004 to 122 in 2006 (Table 2.2). Again as at the year 2007, there were about 125 RCBs with over 500 branches/agencies in the country (MFEP, 2008). Table 2.2 shows that in terms of size of lending activities, RCBs have the biggest loan portfolio and financial penetration of 40 and 55 percent for 2005 and 2006 respectively. According to GHAMFIN (2004), some RCBs have also tried to develop linkages with *susu* collectors. These growing linkages between RCBs and NGOs, CBOs and *susu* collectors provide an important strategy for greater outreach to rural poor clients, with the RCBs providing a decentralized network of licensed financial institutions in rural areas and the others providing the grassroots orientation that permits reaching relatively poor, remote clients (GHAMFIN 2004).

Table 2.2 Scale and Outreach of RMFIs in Ghana

MFI	Number			Loan Portfolio			Borrowers		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Financial NGOs[2]	28	25	27	7,238,370	10,984,656	16,600,380	105,530	98,386	209,161
Savings & Loans	10	10	8	27,190,091	76,567,210	37,116,034	39,890	58,598	77,513
Credit Unions	261	273	275	25,010,220	27,341,719	39,4899,40	83,804	93,298	99,856
Rural Banks	117	120	122	57,260,000	77,534,225	115102364	221,818	298,473	358,092
Susu Collectors[3]	911	1,016	1,259	nil	nil	nil	nil	nil	nil
Total	**416**	**428**	**1691**	**116,698,681**	**192,427,810**	**208,308,718**	**451,042**	**548,755**	**744,622**

Source: GHAMFIN, Performance Benchmarks of MFIs in Ghana (2004).

B. Non-Bank Financial Institutions: Savings & Loan Companies (S&L)

S&Ls are the second largest category in terms of portfolio size with reference to the total MFI industry. In 2004, S&Ls' credit penetration was 23 percent and further increased to 40 percent in 2005 (Table 2.2). According to GHAMFIN (2004), this change is attributable to transformation of part of Sinapi Aba Trust NGO into Opportunities International Sinapi Aba Savings and Loans Company in 2004. Even though S&Ls have performed well with regard to their loan portfolio, their growth in terms of number of institution had decreased from 10 in 2005 to 8 in 2006 (Table 2.2).

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[2] FNGOs declined in size due to weak governance structure and reporting systems even though in reality they have a huge presence on the ground

[3] Susu collectors have negligible borrowers.

C. Credit Unions

Credit Unions are thrift societies offering savings and loan facilities exclusively to members. Table 2.2 shows that in terms of portfolio allocations, CUs have dropped from 21 percent in 2004 to 17 percent in 2005. However over the period from 2004 to 2006, their total number had increased from 261 to 275 institutions. Out of the 275 CUs in Ghana, 64 are located in the rural areas and the remaining 211 can be seen in the urban centres with over 300,000 members (MFEP, 2007). In terms of geographic outreach Credit Unions provide microfinance for the active poor in all ten regions including rural and remote areas of Ghana (MoFEP, 2007).

Table 2.3 Outreach Volume of RMFIs in Ghana

MFI	Savings			Deposits		
	2004	2005	2006	2004	2005	2006
Financial NGOs[4]	nil	nil	nil	nil	nil	nil
Savings & Loans	31,840,416	33,477,472	29,700,000	275,050	329,957	299,937
Credit Unions	35,565,426	42,539,618	19,800,000	164863	192367	199,892
Rural Banks	135,754,000	168,801,792	250,800,000	1720731	2116428	2,493,004
Susu Collectors	35,036,825	35,442,020	29,700,000	257609	271959	301,237
Total	**238,196,667**	**280,260,902**	**330,000,000**	**2,418,253**	**2,910,711**	**3,294,070**

Source: GHAMFIN, Performance Benchmarks of MFIs in Ghana (2004).

D. Financial Non-Governmental Organizations (FNGOs)

FNGOs have facilitated the development of good microfinance practices in Ghana. FNGOs are particularly important in making financial services available in the Northern part of the country, where both commercial and rural banks are scarce. Per the reporting institutions, FNGOs are generally welfare-oriented agencies and their total outreach is only about 60,000 clients (GHAMFIN 2004). Table 2.2 shows that FNGOs represent 23

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[4] FNGOs are legally not allowed to mobilize deposits other than mandatory savings retained as security against loans.

percent borrowers of the total MFI clients in 2004 whereas in 2005 the borrowers decreased to 18 percent as compared to 9 and 11 percent for S&Ls in 2004 and 2005 respectively. This implies that for the period 2004 to 2005, FNGOs reached more borrowers than S&Ls. In terms of number of institutions, NGOs have decreased from 28 in 2004 to 27 institutions in 2006. The decrease in number have also reflected in their share of loan portfolio to industry, recording as low as 6 percent and remaining the same for the period 2004 to 2005. The decrease in the number of FNGOs reporting to GHAMFIN was due to their weak governance structure and reporting systems even though in reality they have a huge presence on the ground.

E. Informal Finance

Informal finance includes *susu* collectors, moneylenders, and credit clubs. There are eight regional *susu* collectors cooperative societies, which are grouped into the national Ghana Co-operative Susu Collectors Association (GCSCA 2003). According to GHAMFIN Susu collectors increased from 911 in 2004 to 1,259 in 2006 (Table 2.2). Similarly, though total savings mobilized increased by GH¢ 405,195 in 2005, it rather decreased by GH¢ 5,742,000 in 2006. However the number of depositors increased from 257,609 in 2004 to 301,237 in 2006. Moreover the association mobilized a deposit of GH¢38.5m as at December 2007 and increased its membership base by 45 percent. GCSCA had also disbursed over GH¢1.02m to it members with financial support from Barclays Bank and Microfinance and Small Loans Centre (MoFEP, 2008).

Table 2.4 Loan Portfolio and Borrowers to Industry

MFI	Percentage of Loan Portfolio to Total Industry			Percentage of Borrowers to Total Industry		
	2004	2005	2006	2004	2005	2006
Financial NGOs	6	6	8	23	18	15
Savings & Loans	23	39	18	9	11	12
Credit Unions	21	16	19	19	17	16
Rural Banks	50	39	55	49	54	57
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: GHAMFIN, Performance Benchmarks of MFIs in Ghana (2004)

F. Government Credit Programmes

The Government of Ghana 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 percent using funds from the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) (Quainoo 1997). None of the programmes administered by the National Board for Small-Scale Industries (NBSSI) has reached 70 percent recovery rate or as many as 200 clients. As a result, these "revolving funds" are depleting in nominal as well as real terms, even without counting the substantial costs to Government of operating them, with a negligible outreach averaging fewer than 60 loans a year.

The Government has also entered into micro-credit through poverty alleviation programmes and the District Assembly Common Funds. While in some instances this has served to make wholesale funds available to local RMFIs for on-lending, more commonly it has been perceived and used as politically motivated "loans," with negative consequences for repayment. The government in 2001 came out with an Emergency Social Relief Project meant to provide US$57 million in business loans to the economically active poor at 20 percent interest rate over 2002-04. Disbursements are made through RCBs, S&Ls and NGOs, who evaluate the beneficiaries. The main threat to sustainable rural and micro finance from these government programmes come from the negative effects on efforts of RMFIs to mobilize savings and to collect from borrowers, whose willingness to repay typically is low when loans are known come from government or donor funds at subsidized rates. A particular hazard for RMFIs that handle such funds was that poor repayment may spill over to their own portfolio (Steel and Andah, 2004).

Currently, the government has introduced another scheme called Micro-Credit Scheme and Small Loan Centre (MASLOC). The long term objective of MASLOC was to promote the emergence, development and growth of a sustainable and decentralised microfinance sector with grassroots participation in ownership, management and control (Government of Ghana, 2008). Those to benefit under this scheme include women in entrepreneurship, micro credit enterprise, youth credit schemes, agro processing, fish mongering and other alternative livelihood vocations. Disbursement of loans under MASLOC will be done through partner financial institutions as channels of disbursement and recovery of loans from beneficiaries. Nonetheless, the effect of MASLOC in terms of outreach is yet to be assessed since it has just begun (Government of Ghana, 2008).

G. Donor Supported Micro Credit Programmes

i. Social Investment Fund (SIF)

The Social Investment Fund (SIF) was established in 1998 through the concerted effort of the Government of Ghana, the African Development Bank (AfDB) and United Nations Development Programme (UNDP). The primary objective of SIF was to alleviate poverty in Ghana through institutional and capacity building; human development; and targeted pro-poor socioeconomic investment in selected areas. It supports small scale enterprises and uses microfinance as a poverty alleviation tool to achieve accelerated growth in the rural areas (MFEP, 2008).

From 2003 to 2007, SIF under Poverty Reduction Project I (PRP I) disbursed $2.2m to 32 microfinance institutions for onward lending to about 14,000 clients of which 80 percent are women who are engaged in income generating activities. Currently the SIF is implementing the government of Ghana's Urban Poverty Reduction Program (UPRP) with the aim of halving poverty by 2015. By this objective the SIF is involved in building the capacity of microfinance institutions to enable them reach out to the rural poor (MFEP, 2008).

ii. Community Based Rural Development Project (CBRDP)

The Community Based Rural Development Project (CBRDP) was a roll-over from Ghana's Village Infrastructure Projects (VIPs) which seeks to develop and expand infrastructure in rural communities to attain wealth creation and economic empowerment. As a follow up to VIP, CBRDP started in the year 2006 with funding from the World Bank and Agence Française de Développement (MFEP, 2008). The CBRDP programme among other objectives has microfinance capacity building interventions aimed at improving the economic and social status of micro entrepreneurs (MEs) particularly women through their enhanced access to requisite financial and non-financial services resulting from effective and sustainable capacity building of selected Microfinance Institutions (MFIs). Since the project is still on-going, its impact is yet to be assessed.

iii. Millennium Challenge Account (MCA)

The Millennium Challenge Account (MCA) is a five-year compact approximately $547 million which aims at reducing poverty by raising farmer incomes through private sector-led, agribusiness development (MFEP, 2008). The programme consists of three projects: (i) Agriculture Project; (ii) Transportation Project; and (iii) Rural Services Project. Under the *Improvement of Credit Services for On-Farm and Value Chain Investments*, MCA seeks to augment the supply of, and access to, credit provided by financial institutions operating in the intervention zones, providing seasonal credit to Farmer Based Organisations through commercial and rural banks, as well as through non-traditional channels such as input suppliers, and medium-term credit through banks to finance capital goods such as irrigation and post-harvest processing and storage facilities (MoFEP, 2008).

As a result, MCA would strengthen rural financial services by automating and interconnecting 121 rural banks that are private, community-owned banks, and provide other improvements in the national payments systems that will draw a large number of people currently not served or under-served into the financial system. As a strategy to implement the projects MCA is basing its investments under the Rural Services Project on an existing Community Based Rural Development Project (CBRDP). The MCA investments will extend the services of the programme implementation unit developed under the CBRDP and the capacity building activities financed in the project will use the existing training programme piloted by CBRDP (MFEP, 2008).

Again, the implementation of the MCA compact has just started and is on-going thus the literature could not analyse figures in terms of impact results.

2.2.4 Depth of outreach

According to (GHAMFIN 2004), women formed 56 percent of the total MFI clients in Ghana for the period 2004 to 2005, and this compares very well to the Sub-Saharan Africa average of 57 percent for 2005. Most of the products and services provided by the RCBs, even though targeted at the rural folk, require collateral. Land and property in the rural areas are usually owned by families, and are in custody of men. This partly explains why RCBs outreach to women (45 percent) is below the national average of 56 percent (Table 2.5). Furthermore RCBs operate as banks and their procedures are usually complicated and intimidating to women, who are usually market traders or manage micro enterprises such as bread selling and food preparation. The typical loan sizes of RCBs are usually too big to meet their needs, and smaller loans are also too expensive for the bank to process (GHAMFIN 2004).

S&Ls serve more low income clients in the urban centres, of which the majority (66 percent) are women (Table 2.5). S&Ls usually apply more of the individual lending methodology than the group lending methodology. Even though issues of collateral are applicable to S&Ls, they are able to serve proportionately more women than the RCBs (GHAMFIN 2004). FNGOs reported 95 percent of their clients as female borrowers, because they are not deposit taking institutions, they usually have limited fund for on-lending, thus they focus on serving people lower down the poverty scale with very small loans. Meanwhile, CUs rely on membership with regular stream of income. CUs enable regular cash savings in small amounts. The percentage of women among individual clients is relatively low (34 percent) (GHAMFIN 2004).

Table 2.5 Average loan size and Percentage of Women Borrowers

MFI	Average Loan Size per capita			Women Borrowers		
	2004	2005	2006	2004	2005	2006
Financial NGOs	27	44	79	95	88	90
Savings & Loans	266	518	400	66	68	69
Credit Unions	116	116	320	34	35	36
Rural Banks	101	103	479	45	41	39
Micro finance Industry	101	139	320	56	58	59

Source: GHAMFIN, Performance Benchmarks of MFIs in Ghana (2004)

2.2.5 Findings of Scale of Outreach in Ghana

Ghana's approach has fostered a wide range of RMFIs, formal and informal (rural banks, savings and loan companies, credit unions, non-governmental organizations (NGOs), savings and credit associations of various types, informal savings collectors and moneylenders). However, the review of the various MFIs models showed outreach in the following areas:

i. Financial Penetration

On the average financial penetration has been fairly low (generally below 50 percent) with the lowest recorded by FNGOs (6 percent). The Credit Unions recorded 19 percent penetration whereas S&Ls recorded 32 percent comparatively bigger than the FNGOs and the CUs. Meanwhile the largest penetration was accounted for by RCBs which recorded an average of about 45 percent for the industry. This credit went to 548,755 and 744,622 borrowers in 2005 and 2006 respectively (Table 2.2).

ii. Loan

The MFI industry in Ghana cumulated an aggregate loan portfolio of about GH¢ 120,000,000 in 2004 and this increased to about GH¢208,308,718 in 2006. These amounts were in turn disbursed to 550,000 and 744,622 borrowers for the respective years 2005 and 2006. This yielded an increase in the average loan size of GH¢260 in 2004 to GH¢350 in 2005 but reduced to GH¢280 in 2006. Hence average loan size had increased by GH¢90 in 2005. Relating the average loan size to the GNI per capita of

Ghana (measures loan size relative to the income of a country), the average loan size for the whole industry increased from 101 percent in 2004 to 139 percent in 2005 (Table 2.5). However FNGOs had a lower loan size than any other category of MFI (27 percent in 2004 and increased to 45 percent GNI per capita in 2005). This reveals that on the one hand, FNGOs have been focusing on poor clients who are at the lower end of the poverty scale and on the other hand they have limited loanable funds as compared to the other category of MFIs.

iii. Savings

Savings are very important because they serve as a source of loanable funds particularly for the MFIs. In 2004 total savings mobilized by the industry was GH¢240,000,000 this increased to GH¢300,000,000 and GH¢330,000,000 in 2005 and 2006 respectively (Table 2.5). This represents an average 11 percent increment of savings mobilized by the sector. Apart from the other categories of MFIs, the savings mobilized ware not accounted for by the FNGOs because legally they are not allowed to mobilize deposits from the public.

iv. Target Groups and Spatial distribution

Averagely 56 percent of MFIs reached women clients with the remaining 44 percent reaching the males. FNGOs reached majority of the female clients (95 percent). This can be explained by the focus of the FNGOs (poverty focus) and also due to the group methodology that they use to lend money. According to GHAMFIN (2004), female clients favour more group loans because of the group guarantee system. However CUs recorded the lowest outreach (34 percent) to female clients because CUs do not have data concerning group lending. RCBs' clientele are usually salaried workers who live in the rural areas, cocoa farmers, farmers and SME businesses. S&Ls serve low income clients mainly in the urban centres of which majority (66 percent) are women. RCBs, however, have wider geographic coverage and more outlets than any other type of MFI. This gives the RCBs greater interface with the clients they serve. However this review was not able to capture sectors because there is no data concerning business sector of clients.

2.3 Summary

Although it is premature to judge what approach/model is most likely to be successful in reaching out to the poor, it has also offered an appropriate opportunity to assess the extent to which Ghana's flexible, evolutionary, tiered approach is leading the development of RMFIs towards widely reaching the poor in society. Even though the analysis of literature on Ghana showed clear statements of clients who are being targeted, there is either none or lack of adequate information on clients' poverty conditions, business enterprise and spatial distribution. Therefore this study intends to fill this gap by examining the composition of clients reached and their vulnerability by employing both quantitative and qualitative tools to assess the poverty conditions of target groups that MFIs reach.

2.4 Indicators that Influence Outreach Performance of MFIs

2.4.1 Introduction

This section reviewed basic tools that measure indicators that influence outreach performance of MFIs in three core areas, namely: 1. Outreach (how many clients are being served?) 2. Client poverty level (how poor are the clients?) and lastly 3. Operational sustainability (is the MFI profitable enough in order to remain in business?). The indicators suggested here dwell more on outreach, and others that influence poverty outreach hence, do not capture all relevant aspects of MFI performance. This list has been kept short, and the treatment of indicators as basic as possible, in order to make this note useful for non-specialists.

2.4.2 Purpose of Outreach Assessment Tools

In recent years, several tools have emerged to assist donors in their assessment of outreach performance of MFIs. One example is the *CGAP Format for Appraisal of Microfinance Institutions*, which contains practical guidelines and indicators for measuring MFI outreach performance on a range of issues. In order to gain more transparency on the depth of outreach, CGAP collaborated with the International Food Policy Research Institute (IFPRI) to design and test a simple, low-cost operational tool to measure the poverty level of MFI clients. This tool is a companion piece to the *CGAP Appraisal Format.* The tool provides a useful means to verify, both for the donor and the MFI, the extent to which an existing strategy results in poor clients joining the MFI. The tool assesses the poverty levels of MFI clients within its operational area. Using available data, the tool also relates local poverty levels to poverty measured at larger regional and national levels. The methodology is applicable to all MFIs, regardless of their location, client structure, or outreach approach (Littlefield, 2003).

2.4.3 Application of Outreach Tools

1. Outreach

The best measurement of outreach is done with reference to the *number of clients or accounts that are active at a given point in time.* This indicator is more useful than the cumulative number of loans made or of clients served during a period. Among other distortions, cumulative numbers make an MFI offering short-term loans look better than one providing longer-term loans. The recommended measure counts active clients rather than "members" in order to reflect actual service delivery because members may be inactive for long periods of time, especially in financial cooperatives (Littlefield, 2003).

Interpretation: Expanding the number of clients being served is an ultimate goal of almost all microfinance interventions. But rapid expansion sometimes proves to be unsustainable, especially during an MFI's early years when it needs to design its products and build its systems. It has very seldom been useful for funders to pressure MFIs for rapid expansion (Littlefield, 2003).

2. Client poverty level

There are various techniques for measuring client poverty levels, some quite expensive and others simpler, but as yet there is no widespread agreement on any one of them. If the project does not use a more sophisticated indicator, it should at a minimum report the following rough proxy for the poverty level of loan or savings clients at a point in time:

$$\text{Average Outstanding Balance} = \frac{\text{Gross amount of loans or savings outstanding}}{\text{Number of active clients or accounts}}$$

It is important to note that number, should not be confused with total amounts loaned or deposited during the reporting period, or with the average initial amount of loans in the portfolio. The Average Outstanding Balance includes only loan amounts that clients have not yet repaid, or savings that the clients have not withdrawn. For comparison purposes, it is useful to express this indicator as a percentage of the host country's per capita GDP (atlas method). An average outstanding loan balance below 20 percent of per capita GDP or $US 150 is generally regarded as a rough indication that clients are very poor.

Interpretation: Average Outstanding Balance is roughly related to client poverty, because better-off clients tend to be uninterested in smaller loans. But the correlation between loan balances and poverty is very far from precise. Low loan sizes do not guarantee a poor clientele. Likewise, growth in average loan size does not necessarily mean that a MFI is suffering "mission drift." As an MFI matures and growth slows, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving (Littlefield, 2003).

3. Operational Sustainability

The indicator that measures the operational sustainability of MFIs is called "Operational Self-Sufficiency (OSS). The OSS is calculated as follows:

$$\text{OSS} = \frac{\text{Financial expense} + \text{Net loan loss provision expense} + \text{Operating expense}}{\text{Financial Revenue}}$$

Interpretation: OSS measures how well an MFI covers its costs through operating revenues. Therefore MFIs that have OSS above 100 percent implies that it is able to cover its expense with its own revenue. Similarly MFIs that have OSS below 100 percent suggest that it was unable to cover its cost with revenue thus not profitable.

2.5 Macroeconomic Environment for MFIs in Ghana

The sustainable operations of MFIs are to a large extent influenced by the investment climate that it operates in. MFIs would refuse to give loans to clients in a very unstable macroeconomic environment because it associates such loans with high risk. As a result credit might be rationed. Thus this section analyses the macroeconomic climate by using inflation and interest rates to illustrate their impact on credit particularly to the private sector.

Interest rates are regarded as the price of financial capital and this could rise or fall, depending on the demand for capital. Interest rates have an impact on the overall health of the economy because they affect not only consumers' willingness to spend or save but also business investment decisions (Goacher, 1999). In the year 2000, excessive government borrowing from the financial market led to a very high fluctuating interest rate hovering around 41 percent. Nevertheless, since 2000 Ghana has sustained a relatively macroeconomic stability (Bank of Ghana, 2007). The reduction in government bonds coupled with prudent monetary policies by the Bank of Ghana has resulted in a falling interest rate. Interest rate has fallen from 41 percent in 2000 to 20 percent in 2007. It is worth to note that Interest rate being the cost of capital conveys important information to investors and dealers in the financial market. Generally it is believed that when the cost of capital is low, investors like the MFIs would take advantage and access capital for investment purposes.

On the other hand Inflation is a sustained increase in the average price of all goods and services produced in an economy. Money loses purchasing power during inflationary periods since each unit of currency buys progressively fewer goods (Miller, 2004). Table 2.6 below illustrates the relationship between inflation and interest rates and the resultant influence on credit to the private sector in Ghana.

Table 2.6 Interest Rates, Inflation and Credit to the Private sector 2000 – 2006

Year	Inflation (%)	Interest Rate (%)	Credit To The Private Sector"GH¢"
2000	40.5	42	5,044,000.00
2001	21.3	35	6,148,200.00
2002	15.2	27	6,852,100.00
2003	23.6	26.5	8,028,061.77
2004	11.8	24.0	9,777,617.40
2005	14.8	20.4	14,454,800.00
2006	10.5	20	14,423,300.00[5]

Source: Bank of Ghana Quarterly Bulletin 2006.

Table 2.6 shows that while inflation fell from 40.5 percent to 10.5 percent in 2006; interest rates also fell but not correspondingly (fell from 42 percent to 20 percent) although private sector credit for investment increased in absolute terms possibly due to the falling prices for credit (capital). Despite the achievement above, as at 2007, inflation was 16 percent and is currently hovering around 18 percent as at September 2008. Correspondingly the commercial banks are also charging 23 to 27 percent interest rates. The rise in the two variables could be largely attributable to exogenous factors such as the sharp rise in prices of petroleum and petroleum products on the world market which is affecting the country because of its high import of petroleum and petroleum products for its energy needs.

In conclusion it is worth noting that interest rates have a direct relationship with investment and an indirect relationship with savings and that change in interest rates brings about changes in both investment and savings. The implication for the MFIs is that adverse interest rates and inflation can affect the amount and value of funds available to be loaned to clients thus affecting outreach.

[5] Refers to third quarter of 2006

2.6 Linking Review to the Study

The global review has identified certain factors that influence outreach. These factors include high operational cost, location of institution, concentration and viability of economic activity (risk factors), availability of loanable funds, and ICT infrastructure. These factors would constitute the benchmarks for assessing outreach performance in this study.

The review also revealed that indicators for measuring poverty outreach have been largely either aggregates or proxies without providing details about the variable being measured, hence making it difficult to evaluate the depth of outreach in detail. Against this backdrop this study intends to bridge this gap by additionally assessing the poverty conditions of MFI target groups. Even though the concept of poverty is complex and strongly influenced by local cultural and socioeconomic conditions, the poverty assessment approach presented in this study supports a flexible definition of poverty that can be adapted to fit local perceptions and conditions of poverty. Thus clients' poverty conditions were assessed along indicators that capture common characteristics of poverty. These indicators include human capital, dwellings and assets acquired. The assessment of clients' poverty conditions is intended to complement the use of CGAP's tool. The essence is to evaluate poverty outreach from multiple scenarios which will eventually determine the extent to which MFI programmes really reach the poor.

2.7 Analytical Indicators

Drawing from the foregoing literature reviewed, Table 2.7 below summarizes the key indicators for analyzing outreach information within the wider outreach assessment techniques.

Table 2.7 INDICATORS FOR OUTREACH ANALYSIS

Key Variables	Indicators	Purpose
1. Degree of Outreach		
Borrowers and Savers	Active borrowers and Savers	Measures the number of borrowers and Savers reached
GLP	Gross Loan Portfolio	Measures the size of MFIs as compared to their peers
Savings	Savers with passbook and time deposit accounts	The amount of internal loan funds available to the MFIs for on-lending
2. Socioeconomic Levels of Clients		
Client poverty level	Average outstanding balance per client expressed as percentage of per capita GDP	Gives a rough indication of clients' income levels or how low down the poverty scale MFIs reach
Others	Assets, enterprise, spatial location	Provides details on clients poverty levels
3. Outreach Determinants		
Case Load	Number of clients per loan officer	Measures productivity of loan officers with respect to the size of clients handled
Operational Sustainability	Operational Self-Sufficiency (OSS)	Measures how well an MFI covers its cost through operating revenues
Portfolio quality	Outstanding loan balance, over 30 days/GLP	Reflects the risk of loan delinquency and determines future revenues and an institution's ability to increase outreach to existing clients
Logistics: ICT, vehicle, number of branches	Quantum of logistics available	A scalable state of infrastructure supports outreach especially in terms of branch expansions and effective monitoring

Source: Authors construct

CHAPTER THREE

PROFILE: INFORMAL ECONOMY AND MFI OPERATIONS IN STUDY AREA

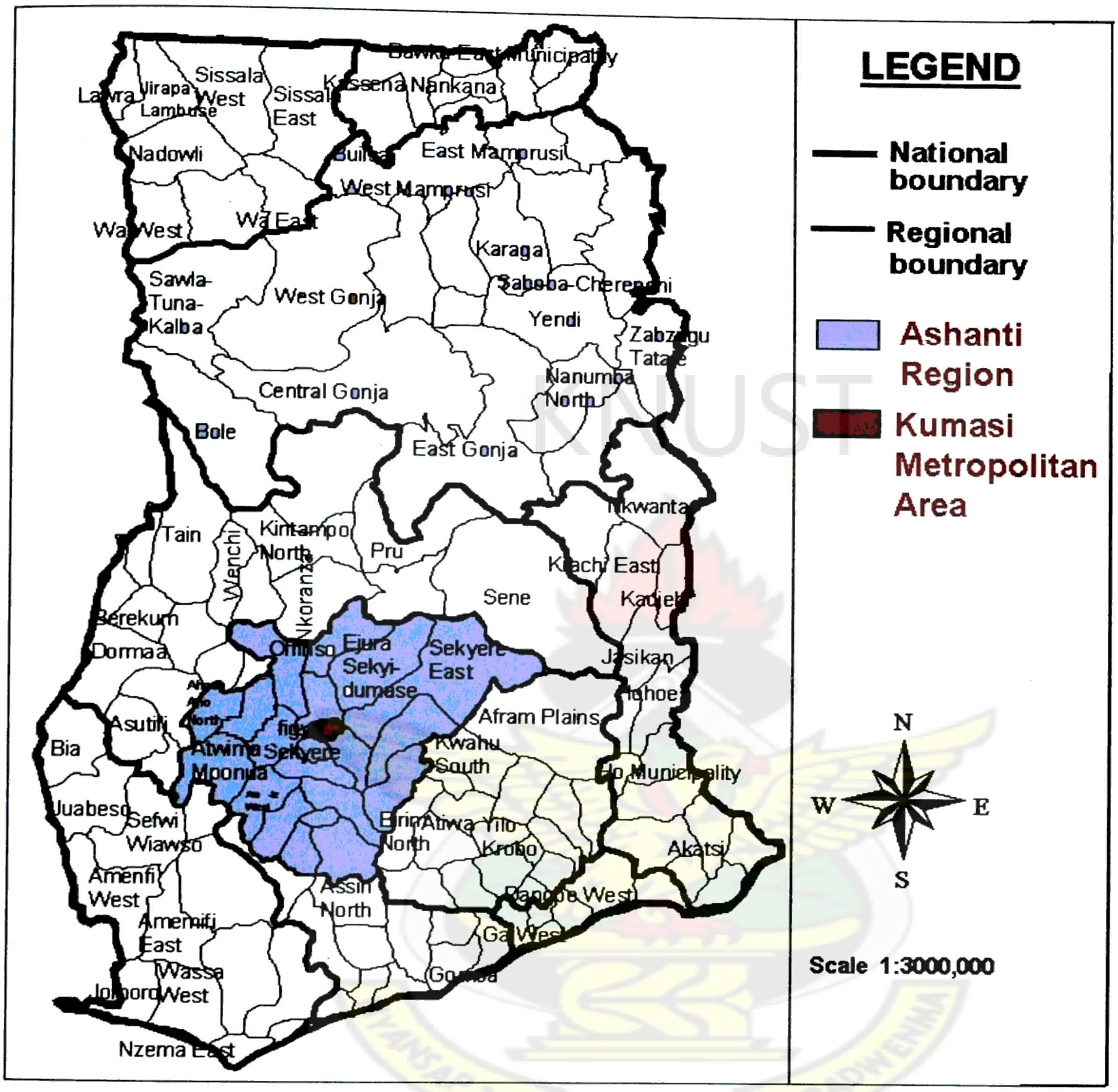
3.1 Introduction

This chapter describes the nature of the informal sector and the scale of activities of the microfinance institutions in Kumasi metropolitan area (KMA). First and foremost the size in terms of space and population of KMA within the national context is presented. This is followed by examining the socioeconomic characteristics of the study area and additionally estimating the potential informal sector population of the economically active in KMA. Furthermore an overview of the scale of MFI activities in the city was also examined. Even though there are different categories of microfinance institutions in the metropolis: namely, Rural and Community banks (RCBs), Savings and Loans LTD (S&L), Credit Unions (CUs), Financial NGOs (FNGOs) and Susu Collectors (SCs), this chapter used cases from the big players typically with more than one network in the metropolis or Ashanti Region to illustrate their scale of outreach. Lastly the characteristics of the informal sector were also examined along the various economic activities that are undertaken in metropolis. The rationale for examining the informal economy is to show the extent to which the activities in this sector support the sustainable operations of the microfinance institutions since generally, MFIs design products to specifically target clients in the informal economy.

3.2 Location and Size

Kumasi is located in the transitional forest zone and is about 270km north of the national capital, Accra. It is between latitude 6.35° – 6.40° and longitude 1.30° – 1.35°, an elevation which ranges between 250 – 300 metres above sea level with an area of about 254 square kilometres. The unique centrality of the city as a traversing point from all parts of the country makes it a special place for many migrants (Figure 3.1).

Figure 3.1 Map of Ghana Showing Kumasi Metropolitan Area



3.3 Socioeconomic Characteristics of KMA

Kumasi is the second city of Ghana and the capital of the Ashanti Region with one of the most dynamic informal economies in the country. The Kumasi metropolis is the most populous district in the Ashanti Region. During the 2000 Population Census it recorded a figure of 1,170,270. It has been projected to have a population of 1,712,940 in 2007 based on a growth rate of 5.4 percent per annum and this accounts for just under a third (38 percent) of the region's population (KMA, 2006). Kumasi has attracted such a large population partly because it is the regional capital, and also the most commercialised centre in the region (Devas and Korboe, 2000). About 47 percent of the population belonging to the age groups 20 to 64 years represents the labour force (KMA, 2006). According to Boapeah (2001) an estimated 75 percent of the labour force in the metropolis was employed in the informal economy of Kumasi with 65 percent being self-employed. The dominance of the informal sector in the economy of Kumasi is expected to continue well beyond 2020 as a result of the current emphasis on the private sector-led economy (Adarkwa and Post, 2001). Table 3.1 shows the estimation of the potential informal sector population within the context of the total population in the metropolis.

Table 3.1 Population of Kumasi (2000 – 2007)

Area/year	**2000**	***2004**	***2005**	***2006**	***2007**
Kumasi	1,170,270	1,444,270	1,522,261	1,625,180	1,712,940
Labour force in Kumasi (20-64 years)	550,027	678,807	715,463	763,835	805,082
Informal sector - Kumasi	*412,520*	*509,105*	*536,597*	*572,876*	*603,812*
Ashanti	3,612,950	4,129,945	4,270,362	4,415,554	4,565,683
Nation	18,912,079	21,038,804	21,606,852	22,190,237	22,789,373

Source: Population Census Report 2000. *Projected. Growth rates: Kumasi 5.4 Ashanti 3.4 National 2.7

3.4 Characteristics of the Informal Economy

The term *informal sector* is generally used to mean economic activities that, at least in part, operate outside the national and local legislative or regulatory context. The products may be legal, but the processes through which they are prepared may not be fully legal, for example where businesses do not pay taxes or are not registered (Chen et al., 2002). Increasingly the term *informal sector* has been found to be inadequate as it is not a 'sector' in the sense of a specific industry group, and so the term informal economy is used to encompass the diverse group of workers operating informally (ILO, 2002). In this study both terms are used, because the informal sector has such wide currency.

The composition of the city's informal economy includes Central Market (Kejetia Market), reputedly the largest open air market in West Africa, a carpentry area at Anloga, an informal vehicle manufacturing and repair area at Suame Magazine, and petty trade occurring throughout the city (Accra Mail, 2001). The largest sub-sector in the informal economy in Kumasi is petty trade, accounting for about 60 percent of total informal employment in Kumasi. This is followed by petty production, accounting for about 35 percent and urban agriculture accounting for the remaining 5 percent (Boapeah, 2001).

Petty trade in Kumasi includes the sale of produce such as fruit and vegetables, meat, cooked food, and water sachets, and the sale of commodities such as clothing, shoes, stationery, cosmetics and many other items, often sold from a shed or kiosk, a table, a plastic mat displayed on the floor or by traders carrying their wares. Three categories of petty traders in Kumasi have been identified: sedentary, mobile within the CBD, and mobile beyond the CBD (Gerards et al, 1998). Periodic use of space is evident, with a peak use on weekdays, and low incidence during weekends.

Petty production in Kumasi has four main strands. Craft enterprises include Kente weaving, basket making, pottery/ceramics, woodcarving, cane weaving, jewellery and gold smithing. Artisan work includes tailoring and dressmaking, carpentry, leather works, masonry and block making, metal work, terrazzo work, printing, shoe making, bakery and many others. Processing enterprises include oil extraction (palm, coconut, and groundnut), maize and rice milling, cassava processing, kenkey-making (maize meal). Service enterprises include vehicle, watch, radio and television repairs, portering (either push-truck porters using trolleys, or kayayoo – head porters – using head pans), preparing cooked food, hairdressing, painting, plumbing, vulcanizing and transportation, and recently Internet cafés (Boapeah, 2001).

3.5 Overview of Scale of MFI Activities in Kumasi Metropolis

3.5.1 Introduction

There are many MFIs operating in Kumasi Metropolis that provides demand, time and savings deposit facilities. Some of them include, New Generation, Pacific Savings and Loans LTD, Women's' World Banking and a host of credit unions, "susu" companies and financial NGOs all seeking to provide access to financial services with the over all aim of bringing financial empowerment to poor entrepreneurs particularly women. This section will therefore review activities of a few of the MFIs based on their institutional profile for 2007, in order to put their scale of activities in the metropolis into perspective.

a) Sinapi Aba Trust (SAT)

Sinapi Aba Trust is an autonomous private, Christian and a non-profit Non-Governmental Organization (NGO) which was established and duly registered in May 30th 1994 under the company's code 1963 (Act 179) as a company limited by guarantee to support the poorest of the economically active poor to enhance their lives through microfinance and basic business training. SAT targets poor entrepreneurs through two main loan products, Group Loans and Individual Loans. Currently SAT operates 1,825 Trust Banks in 18 branches in Ghana. However in Kumasi metropolis SAT has a total of 3 branches. Sectorally SAT provides micro and small financial assistance, entrepreneurial training and advice to individuals and groups within micro and small enterprises such as, dressmakers and beauticians, food restaurants/sellers, poultry production and vegetable growers. As of the year 2007, SAT has reached out to 51,686 clients with a loan amount of GH¢ 6,730,627 disbursed to them nation wide.

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

First Allied Savings and Loans Limited commenced official business on September 25, 1996. The institution was established purposely to engage in micro-financing activities through the mobilization of savings from the retail public – mainly households and small business enterprises – and the provision of credit largely to its target group (micro and small business financing). The target group oriented credits are usually linked to savings. The institution has been reaching out to its customers through its branches, agency and a "distance banking" concept through the provision of loans and voluntary savings products to its targeted customers. The outreach performance of FASL is presented in Table 3.3.

c) ProCredit Savings and Loans Company Limited

ProCredit Savings and Loans Company Limited is a development-oriented financial institution which offers a wide range of banking products with focus on lending to small and medium-sized enterprises, because these businesses create the largest number of jobs in the informal sector and make a vital contribution to the economies in which they operate. ProCredit is a multinational network however it has 2 branches (Adum and Suame) in the Kumasi metropolis. Table 3.3 presents the scale of outreach of ProCredit in the metropolis.

Table 3.3 Scale of MFIs Outreach in KMA, 2007

MFIs	Loan disbursed (GH¢)	Borrowers	Savings Mobilized (GH¢)	Savers
SAT	1,358,360	5,460	333,217	5,460
FASL	10,111,596	7,919	14,490,326	25,191
Procredit	1,455,363	2,196	3,001,000	5,721
GCSL	6,677,539	10,604	7,893,258	34,518
OI LTD	6,079,576	20,195	3,634,507	18,757
NewPage	1, 971, 450	5, 431	631,340	6,002
CFF	396,994	4,367	106,972	5,798
Total	**28,050,878**	**56,172**	**30,090,620**	**101,447**

Source: Profile of institutions and MIX Market, 2007

d) Opportunity International Savings and Loans Limited

Opportunity International Savings and Loans Limited was born out of the belief that a transformational, formal financial institution was needed to make a lasting economic impact on the entrepreneurial poor in Ghana. In the year 2004 the first branch was opened in Kumasi and has since been serving micro and small entrepreneurs with loans, deposits and other financial services that enable them to increase their income and help transform their lives. The outreach performance of OI is presented in Table 3.3.

e) Garden City Savings and Loans LTD

Garden City Savings and Loans (GCSL) LTD started operation in the metropolis in August 1999. GCSL has a total of 5 networks all in the Ashanti region with 4 of the networks located in Kumasi metropolis. Primarily GCSL offers three final products, namely deposit mobilization, consumer credit and micro enterprise credit. The consumer loans targets employees or previously qualified individuals with stable source of income while micro enterprise loans are for micro entrepreneurs, self employed professionals and artisans. Table 3.3 below presents GCSL outreach in terms of loans in the metropolis.

f) NewPage Financial Services

NewPage started its operation in 2000 providing access to credit through guarantee schemes to micro entrepreneurs-primarily women, and training in business and financial management. Presently it has 3 branches in Ashanti Region with a branch in the Kumasi metropolis. NewPage provides financial service to the following target groups: petty traders, artisans, farmers, market women, small and medium enterprises (SMEs) and so forth. These target groups received credits from NewPage either as groups or individuals. Table 3.3 shows their scale of outreach in the metropolis.

g) Cedi Finance Foundation (CFF)

CFF was established in 1999 as a company registered by guarantee. The goal of CFF is to provide micro-credit and facilitate business development skills and other social support services to the active poor engaged in micro and small-scale enterprises who lack access to credit from the traditional financial institutions. CFF receives credit from traditional banks, Social Investment Fund (SIF), and recently Microfinance and Small Loans Centre (MASLOC) which is a government agency for on-lending to small and medium scale entrepreneurs. Essentially CFF works largely with the economic poor in the urban and peri-urban locations in the Kumasi metropolis and the neighbouring District Assemblies. The target groups of CFF include: petty traders, food processors, hairdressers and beauticians, local textiles manufacturers and artisans. CFF scale of outreach in the metropolis is presented in Table 3.3 above.

3.6 Conclusion

Evidence from the profile above shows that the informal sector dominates the urban economy of Kumasi to such an extent that it employs about 75 percent of the labour force in the metropolis (Boapeah, 2001). This represent about three-quarters of its workforce which eventually supports various economic activities in the metropolis. Similarly the scale of MFI activities shows that Kumasi metropolis can be said to have a fair share of MFIs concentration in Ghana. As at 2007, the potential size of clients in the informal economy is estimated at 603,812 persons. However, reporting MFIs were able to reach only 56,172 loan clients with GH¢28,050,878 loans disbursed to them which represent 9.3 percent outreach penetration. In terms of saving clients, a total amount of GH¢30,090,620 was mobilized from 101,447 savers which represent 17[6] percent outreach penetration in the metropolis. This level of penetration indicates that the potential for MFIs operation in the metropolis is high.

[6] Represents total actual outreach in the metropolis

CHAPTER FOUR
OUTREACH ANALYSIS: TRENDS AND CHARACTERISTICS

4.1 Introduction

This chapter analysed outreach in three parts. The first part discusses the degree of outreach mainly in terms of number of clients served and volume of services along an array of outreach variables. The second part discusses socioeconomic level of clients that MFIs reach and finally, the last part is devoted to examining factors that influence outreach.

4.2 Degree of Outreach

4.2.1 Outreach to Clients

Efforts to extend microfinance services to those underserved by financial institutions are classified as Outreach. Table 4.1 shows the 5 reporting MFIs reached a total of 46,057 borrowers and 70,534 savers as against the potential client's population of 603,812 clients, which translates into penetration levels of 7.6 and 12[7] percents for borrowers and saving clients respectively. Averagely this represent Borrowers to Savers Ratio of 0.65, which depicts the reporting institutions, served about two times more voluntary savers than borrowers. This implies that not only was the average client interested in accessing credit but also, concerned about building up capital for future eventualities. In terms of national average for Ghana, the ratio is much higher at 5 savers for every borrower. This was because the average for Ghana includes "Susu" Collectors who do not provide loans but only deal with deposits (as intermediaries). Comparing this statistic to the African Sub-Region, showed MFIs reach many more savers than borrowers. The MIX report of 2005 on African MFIs South of the Sahara showed that surveyed institutions reached 2.41 million borrowers and 6.32 million savers representing a proportion of 2 borrowers for every 5 voluntary savers.

[7] The 12 percent represents the total penetration level for the industry because it accounted for both savings and loan clients

Table 4.1 Summary of Outreach indicators for MFIs in KMA

Indicator	MFI Type	2004	2005	2006	2007
Borrowers	**S&L**	19,508	23,360	28,921	30,799
	FNGOs	7,470	7,080	10,411	15,258
Total borrowers		26,978	30,440	39,332	46,057
Informal sector population[8]		509,105	536,597	572,876	603,812
Outreach Penetration to industry		**5.3%**	**5.7%**	**6.8%**	**7.6%**
Savers	**S&L**	31,055	35,718	43,712	53,274
	FNGOs	7,501	8,142	12,043	17,260
Total savers		38,556	43,860	55,755	70,534
Outreach Penetration to industry		**7.6%**	**8.2%**	**9.7%**	**12%**[9]
Borrowers to Savers Ratio		***0.70***	***0.69***	***0.70***	***0.65***

(Outreach baseline study, 2008)

4.2.2 Quantum of Funds

4.2.2.1 Loans Disbursed

Essentially, the availability of funds determines the degree to which clients can be reached. Table 4.2 shows a total amount of GH¢16,483,919 disbursed among 46,057 borrowers which yields an average loan size of GH¢358 per borrower. The S&Ls disbursed the bigger amount of GH¢12,757,115 among 30,799 borrowers yielding an average loan size of 414 per borrower which represents 77 percent per the reporting MFIs. The remaining 23 percent was disbursed by the FNGOs; disbursed an amount of GH¢3,726,804 among 15,258 borrowers which yields an average loan size of GH¢244 per borrower. The reason why S&Ls had disbursed more loans than the FNGOs was because, unlike the S&Ls, the FNGOs are not mandated to mobilize voluntary savings from the public. This explains why FNGOs recorded relatively high Loans to Savings Ratio of 3.5 as compared to 1.1 by S&Ls for the year 2007 respectively (Table 4.2). The relatively high ratio of 4.8 implies that FNGOs disburse more loans than they receive deposits from members.

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[8] Total population numbers are listed to put outreach information into perspective. Information on the size of the sector was taken from Boapeah (2001) and the 2000 population census

[9] The 12% shows total outreach penetration per the 5 reporting institutions

Table 4.2 Summary of Outreach Volume of MFIs in KMA

Indicator	MFI Type	2004	2005	2006	2007
GLP (GH¢)	**S&L**	3,837,653	6,143,408	8,838,199	12,757,115
	FNGOs	1,344,108	1,759,060	2,621,777	3,726,804
Total Loans disbursed		5,181,761	7,902,468	11,459,976	16,483,919
Savings (GH¢)	**S&L**	3,672,709	5,281,833	7,467,978	11,527,765
	FNGOs	406,318	503,847	768,992	1,071,529
Total Savings Mobilised		4,079,027	5,785,680	8,236,970	12,599,294
Loans to Savings Ratio	S&L	1.0	1.2	1.2	1.1
	FNGOs	3.3	3.5	3.4	3.5
	Industry	**1.3**	**1.4**	**1.4**	**1.3**

(Outreach baseline study, 2008)

4.2.2.2 Savings Mobilized

Generally savings play an important role not only for MFIs but also for the clients in protecting against the seasonality of cash-flows and fulfilling an insurance function. In addition, building up deposits reinforces financial discipline for customers and can eventually yield collateral and serve as a source of funding for MFIs. Table 4.2 shows that on the whole, the reporting MFIs had mobilized a total savings of GH¢12,599,294 from a total of 70,534 saving clients (represents 12 percent total penetration). Analysed in terms of MFI type, the S&Ls accounted for GH¢11,527,765 savings mobilized from 53,274 clients, which represents 91 percent of the total savings mobilized. The remaining 9 percent which represents GH¢1,071,529 savings mobilized from 17,260 clients, was accounted for by the FNGOs. The amount of savings mobilized by FNGOs was low compared to S&Ls because the financial regulations prohibit them from collecting voluntary savings thus, the savings they mobilized was largely attributed to compulsory deposits demanded by the FNGOs as a guarantee for clients so as to enable them qualify for successive bigger loans. This limits the amount of funds available for on-lending to clients by the FNGOs.

4.3 Socioeconomic Levels of Clients

This section relates to the depth of outreach. Essentially it describes the conditions of those reached discussed mainly in terms of sex, business sector, spatial distribution, household conditions, physical assets acquired and clients' poverty levels measured in terms of income and average outstanding balances. The assets considered here include Television sets, Refrigerators, Radio cassette players and Fan. The overall objective of this section was to assess the poverty conditions of clients reached.

4.3.1 Age, Sex and Educational Levels of Clients

According to the study, 12 persons representing 12 percent of clients belong to the lowest age group of 25 to 29 years, whereas the age group 54 to 59 years accounted for 6 percent out of the total clients' population (Table 4.3). However, the majority of respondents were between ages 30 to 49 years which represent 75 percent of clients' population. This shows that the majority of the clients belong to the economically active age group of the population which was similar to the national figure (15 to 60 years) according to the 2000 Population and Housing Census of Ghana.

Table 4.3 Age, Sex and Educational Levels of Clients

Age	
Age Group	**Number**
25 – 29	12
30 – 34	25
35 – 39	23
40 – 44	15
45 – 49	12
50 – 54	7
55 – 59	6
Total	**100**

Sex	
Response	**Number**
Male	19
Female	81
Total	**100**

Educational Levels	
Response	**Number**
Primary	26
Elementary/JHS	45
Sech/Tech/Voc.	10
Never been to school	19
Total	**100**

(Outreach baseline study, 2008)

Analyzing clients' population in terms of sex women constitute about 81 percent of the total clients' population whilst the remaining 19 percent represent males (Table 4.3). This was higher than the average of 56 percent for Ghana and subsequently Sub-Saharan African average of 57 percent for 2005. This difference could be due to the fact that the

Sub-regional level considered a broader category of MFIs which this study did not consider since the study was only limited to two categories of MFIs. Women dominate the reporting MFI clients' population because both the S&Ls and FNGOs use a lending methodology that does not necessarily require collaterals therefore appeal to clients at the lower end of the poverty scale, the majority of which are women (2000 Population Census of Ghana).

In terms of literacy, a total of 81 percent of clients have been to school. A break down of this figure shows that 10 percent have been to either Senior High School or Technical/Vocational School. 26 percent have been to primary school and about 45 percent have attended Junior high school (Table 4.3). This implies that large populations of clients should be fairly literate and by inference have the potential to understand quickly any new credit services introduced by the MFIs that they deal with such as basic book keeping skills. Meanwhile 19 percent of the clients have never been to school at all and as a result, the literate population of clients was comparatively more than those who did not go to school at all (Table 4.3). This implies that the reporting MFIs reach out to both literate and illiterate clients.

4.3.2 Clients Poverty Level

The average balances of outstanding savings and loans are proxy indicators used to indicate client's socioeconomic level (CGAP, 2003). Among the reporting MFIs, the weighted average outstanding loan per borrower is GH¢414 and GH¢357 for the S&Ls and FNGOs respectively (Table 4.4). This represents 69 percent and 60 percent of per capita GDP respectively. According to CGAP Poverty Assessment Tool (2003), an average outstanding balance below 20 percent of per capita GDP is regarded as a rough indication that clients are very poor. Therefore the 69 percent and 60 percent of per capita GDP shows that clients are above the "very poor" population category. But the correlation between loan balances and poverty is very far from precise. Low loan sizes do not guarantee a poor clientele. Likewise, growth in average loan size does not necessarily mean that an MFI is suffering "mission drift." As an MFI matures and growth slows, a lower percentage of its clients are first-time borrowers, and average loan sizes will rise even if there has been no shift in the market it is serving (Littlefield, 2003).

Contrary to the average loan balance above, average savings balances have been GH¢216 and GH¢62 representing 36 percent and 10 percent GDP per capita for S&Ls and FNGOs respectively suggesting that clients particularly those from the FNGOs are at the lower end of the poverty level (Table 4.4). However, there were vast differences between the savings balances for the various institutions. GCSL recorded the highest savings balance of GH¢229 whereas the lowest savings balance of GH¢18 was recorded by CFF, followed by GH¢105 and GH¢61 which were recorded by NewPage and SAT respectively (Table 4.4). Using the savings balances above as criteria implies that MFIs in the FNGOs category reached very poor clients as compared to the S&Ls.

Table 4.4 Average loan and savings balances per reporting MFIs

MFI Type	Institutions	Loan balance per borrower	Savings balance per saver
S&Ls	OI LTD	301	194
	GCSL	630	229
	Average	414	216
	Average per capita GDP	**69%**	**36%**
FNGOs	NewPage	362	105
	CFF	91	18
	SAT	249	61
	Average	357	62
	Average per capita GDP	**60%**	**10%**

(Outreach baseline study, 2008; GDP per capita = 600, GPRSI Progress Report 2006)

4.3.3 Income levels

The income structure of clients varies from one income group to the other. However majority of about 75 percent earned monthly income less than $1 a day. They are largely in the income group of 50 to 299 Ghana Cedi (Table 4.5). About 25 percent of clients earned incomes more than $1 a day. This 25 percent belongs to the income brackets of 300 to 500 Ghana Cedi. Nevertheless, on the average clients monthly income level is put at GH¢189 (Table 4.5). Even though the Average Savings and Loan balances above shows that majority of clients are above the poverty line, yet, examining the individual clients' income levels suggest that majority of clients earned less than $1 a day and by implication are below the poverty line according to the United Nations Standard. This further corroborates the fact that average balances as a proxy indicator of clients' poverty level do not guarantee a poor clientele and therefore could be misleading.

Table 4.5 Income earned per month

Income Group	MFI Type				Total
	S&L		FNGOs		
	Amount	Percent	Amount	Percent	Amount / Percent
Clients with income below $1 a day[10]					
50 – 100	9	23	15	25	**24**
101 –200	13	33	22	37	**35**
201 –299	5	12	11	18	**16**
Sub-Total	27	68	48	80	**75**
Clients with income above $1 a day					
300 - 400	8	20	8	13	**16**
401 - 500	5	12	4	7	**9**
Sub-Total	13	32	12	20	**25**
Total	**40**	**100**	**60**	**100**	**100**

(Outreach baseline study, 2008)

Table 4.6 Household Size and Rooms per Household

Household Size		Rooms per Household	
Persons	Number / Percent	Rooms	Number / Percent
3	20	1	36
4	25		
5	40	2	54
6	10		
7	5	3	10
Total	**100**	**Total**	**100**

4.3.4 Household Size and Rooms per Household

The study shows that household size varies from 3 to 7 persons per household. Averagely a majority of 40 persons per 100 clients

[10] 1USD = 1.12 Ghana Cedi (Ghana Association of Bankers, Sept. 1, 2008)

accounted for 5 persons per household which also tallies with the national average of 5 persons per household (2000 Population Census of Ghana). Again, clients live in a minimum of 1 room to a maximum of 3 rooms per household. The majority of 54 percent of clients have access to 2 rooms per household, whereas 36 percent of clients have access to 1 room per household. This suggests that clients are poor.

4.3.5 Clients' Business Enterprises

The distribution of clients in terms of business enterprises has been varied (Figure 4.1). Majority of the clients (56 percent) are engaged in petty trading, and the next patronized sector was Artisan work (25 percent). The processing enterprise recorded 15 percent of clients whereas agriculture contributed 4 percent to business sector activities. Similarly Boapeah (2001) noted that the largest sub-sector in the informal economy in Kumasi is petty trade, accounting for about 60 percent of total informal employment in Kumasi. This was followed by petty production, accounting for about 35 percent and urban agriculture accounting for the remaining 5 percent. Petty trading was found most attractive because the capital outlay required in entering into petty trading was relatively smaller as compared to other economic activities and secondly, not only was it very flexible but also the return on capital is quicker as compared to the other economic activities. Petty traders get more attention from the MFIs because the initial capital required to start is relatively small thus, fits in to the MFIs' lending methodology whose initial loans to clients ranges from 100 to 200 Ghana Cedi. The second reason is that most women are engaged in petty trading. Since MFIs operations tend to more women hence, are able to attract petty traders (women key trade) than other enterprises. The third reason is attributed to the

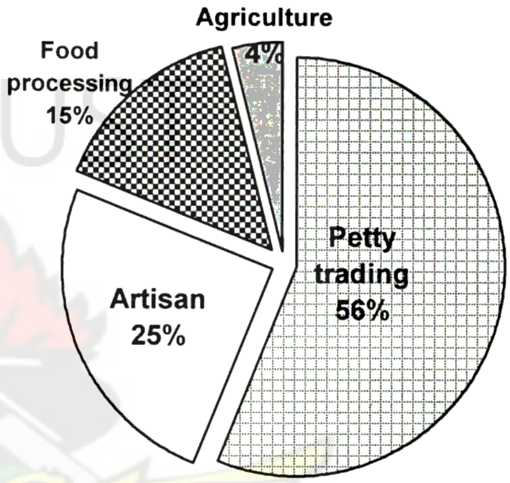

Figure 4.1 Business sector

impact of globalization which has boosted commerce as the fastest moving sector of the economy in spite of production.

4.3.6 Spatial location

In terms of spatial distribution, 65 percent of clients were located in the peri-urban areas of the metropolis, followed by 22 percent coming from the very urbanized centres. Notwithstanding the above, 13 percent of clients can be found in the rural areas of KMA (Figure 4.2). This explains why the reporting MFIs are located in the peri-urban and urban areas because, it is these urbanized areas that many of the client's enterprises are located and secondly, the demand for goods and services are greater in the urban areas as compared to the rural areas therefore make the urban areas more viable to transact business in.

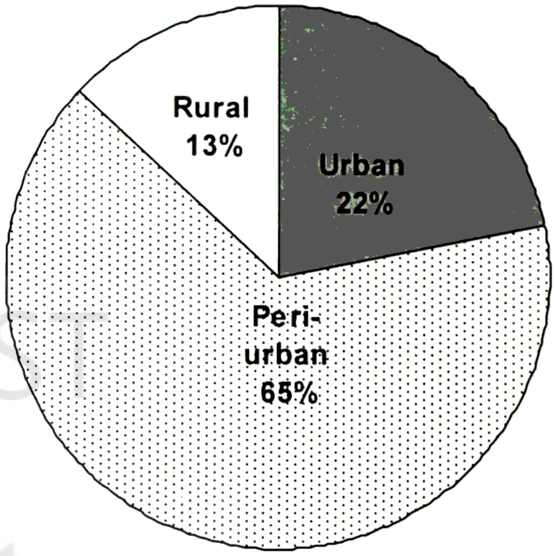

Figure 4.2 Spatial distribution

4.3.7 Asset acquisition

Table 4.7 Assets Acquired

Item	Assets Acquired	Number of Clients
1	Radio and Fan	90
2	TV and Radio	40
3	TV and Fridge	20
4	TV and Fan	30
5	Fridge and Radio	20
6	TV, Radio, Fan	50
7	TV, Fridge Radio	25

The inability to acquire assets reflects poverty condition of clients. There are many types of assets however, for MFI clients, the study considered the following assets: Television sets (TV), Refrigerator, Radio cassette player, and Fan (table top or standing). Against this background the study measured assets acquired in terms of these four assets mentioned above. The study showed that clients have acquired at least one of the four assets mentioned above. A majority of 90 clients have acquired Radio and fan whereas a minority of 20 clients has acquired TV and Fridge. The statistic suggests that majority of clients were able to acquire the less expensive assets such as Radio and Fan, but not the more expensive assets namely, Fridge and TV (Table 4.7). This implies that majority of clients are poor hence could not afford the more expensive assets as was reflected in their income structure which shows 75 percent of clients below the poverty line of $1 dollar a day.

4.4 Outreach Determinants

4.4.1 Introduction

This section discusses factors that influence the extent to which outreach is reached. As was established in the literature, outreach is determined by a number of factors including, availability of funds, number of Loan officers and their case load, operational sustainability, risk factors, and logistical capacity. Where appropriate these outreach drivers were compared with penetration levels (in terms of borrowers) in an attempt to show relationship between outreach determinants and degree of penetration.

4.4.2 Availability of Funds: Savings mobilized

Generally MFIs depends on three main sources of funds for on-lending to their clients. These sources are: savings mobilized internally, donors, and lastly commercial banks. Since MFIs depend on savings mobilized for on-lending to clients suggests that, the level of savings mobilized determines the extent of outreach to target groups. Table 4.8 shows S&Ls mobilized over 10 times more savings (GH¢11,527,765) than FNGOs (GH¢1,071,529). This was because, as mentioned earlier in this section, the financial regulation prohibits the FNGOs from mobilizing savings from the public. As a consequence this has reflected in their outreach penetration as S&Ls reached more clients of about 30,799 persons representing 5.1 percent penetration than FNGOs who reached 15,258 persons accounting for 2.5 outreach penetration of the potential target population of 603,812 persons in the metropolis.

Table 4.8 Availability of Funds (Savings) and Outreach Penetration

MFI	Funds mobilized and Outreach Degree		Penetration Level[12]		Computing Correlation Coefficient[11] (r) for Industry			
	Savings (X)	⇒ X	Clients (Y)	%	⇒ Y	XY	X^2	Y^2
OI LTD	3,634,507	4	20,195	3.3	20	80	16	400
GCSL	7,893,258	8	10,604	1.8	11	88	64	121
NewPage	631,340	0.6	5,431	0.9	5	3	0.36	25
SAT	333,217	0.3	5,460	1.0	6	1.8	0.9	36
CFF	106,972	0.1	4,367	0.7	4	0.4	0.1	16
Total	**12,599,294**	**13**	**46,057**	**7.6**	**46**	**173.2**	**80.5**	**598**

(Outreach baseline study, 2008; computation of r^2 see appendix 4)

Further statistical analysis shows a positive correlation of 0.6 between Savings (X) and Outreach to clients (Y), which implies that increases in level of savings translates directly in to increases in the number of clients reached. The study therefore concludes that there exists a positive correlation between Savings mobilized and Outreach performance for the 5 reporting MFIs. However the r^2 further explains that 36 percent of this change in outreach to clients is accounted for by Savings hence the remaining 64 percent is accounted for by other sources such as funds from donors and commercial banks.

4.4.3 Loan officers and Case Load

Loan officers are personnel who have direct interface with clients with regard to loan transactions. Moreover the number of clients that a loan officer serves is referred to as case load. This indicator shows the productivity level of loan officers with regard to outreach. In the Microfinance sector a case load of between 200 to 400 clients per loan officer is considered ideal (Outreach baseline study, 2008).

[11] Correlation coefficient (r) seeks to measure the degree of association or relationship between variables. $r = 0.6$
[12] Outreach determinants are compared with borrowers because factors that influenced outreach impacts directly on loan clients

Table 4.9 shows that with an average of 59 loan officers, OI accounted for the minimum case load of 257 clients and achieved the highest outreach penetration of 3.3 percent representing 20,195 clients. The next higher outreach performance of 10,604 clients was contributed by GCSL with 24 loan officers translating into 442 case load. SAT and CFF recorded the lowest outreach of 5,460 and 5,431 clients using 11 and 6 loan officers respectively. This further translates into 431 and 386 case loads for SAT and CFF respectively. Table 4.9 shows a relationship among Number of Loan Officers, Case Load and Outreach Performance by the reporting institutions. Except for NewPage, generally the study established that higher number of loan officers positively translates into high outreach performance, but the size of case loads do not directly translates into outreach performance for the MFIs probably due to the group lending methodology that MFIs largely administer.

Therefore, for outreach to be expanded emphasis should be placed on the number of loan officers but not the case load because, high outreach figures were achieved by institutions which have comparatively high number of loan officers, implying that the more the loan officers, the higher the number of clients they reach out to (Table 4.9).

Table 4.9 Loan officers and Case Load

MFI	Indicators	2004	2005	2006	2007	Average	Ideal	Outreach Penetration	
								Clients reached	%
OI LTD	Loan officers	45	55	60	75	**59**			
	Case load	208	240	308	270	**257**		20,195	3.3
GCSL	Loan officers	21	23	25	26	**24**			
	Case load	505	461	424	407	**442**	**200**	10,604	1.8
NewPage	Loan officers	9	14	22	27	**18**			
	Case load	316	309	313	404	**336**	**To**	5,431	0.9
SAT	Loan officers	13	7	12	12	**11**			
	Case load	379	475	414	455	**431**	**400**	5,460	1.0
CFF	Loan officers	4	5	5	8	**6**			
	Case load	279	318	401	546	**386**		4,367	0.7

(Outreach baseline study, 2008)

4.4.3 Operational Sustainability

Operational self-sufficiency (OSS) is a measure of how an MFI is able to cover its expense with its own revenue. MFIs can only remain in business when they are able to generate enough revenue hence become operationally sustainable. Therefore the more profit an MFI generates, the more clients it can reach out to. An OSS above 100 percent implies that an MFI was able to cover its expense and made profit. The opposite is the case when an MFI's OSS is less than 100 percent. According to this study, the average OSS for the reporting MFIs was 110 percent (Table 4.10). This implies the reporting MFIs were able to cover their expense with their revenues. However, OSS varies among the 5 institutions. SAT had the highest OSS of 115 percent, followed by GCSL recording 111 percent. However MFIs OSS levels have not strongly correlated with their outreach performance. Further statistical correlation between MFIs OSS and outreach performance shows a weak but positive relationship of 0.1 between these two variables. OSS accounted for only 1 percent change in outreach performance and the remaining 99 percent is attributable to other factors per the reporting MFIs. The study therefore concludes that there is a neutral or in other words very weak relationship between MFIs OSS and outreach performance per the 5 reporting institutions thus a further study with a much wider scope in needed to further test this relationship.

Table 4.10 Operational Sustainability per reporting MFIs

MFI	Operational self sufficiency (OSS)				Computing Correlation Coefficient (r) for Industry			
	Average OSS (X)	Profit[13] X	Penetration Level Clients (Y)	%	Y	XY	X^2	Y^2
OI LTD	110	10	20,195	3.3	20	200	100	400
GCSL	111	11	10,604	1.8	11	121	121	121
NewPage	104	4	5,431	0.9	5	20	16	25
CFF	110	10	4,367	1.0	4	40	100	16
SAT	115	15	5,460	0.7	6	90	225	36
Total		**50**	**46,057**	**7.6**	**46**	**471**	**562**	**598**

(Outreach baseline study, 2008)

[13] The Sustainability margin is the excess over 100 percent which represents the operational cost for MFIs
r = 0.1

4.4.4 Risk Analysis

Portfolio quality reflects the risk of loan delinquency. Portfolio quality determines future revenues and its influence on an institution's ability to increase outreach and serve existing clients. The study measured portfolio quality as portfolio at risk over 30 days (PAR >30 days). Analyzing the averages for the reporting institutions, CFF had the poorest portfolio quality of 5.7 which was followed by GCSL of 3.4 (Table 4.11). This statistic combined with other factors explains why CFF had the lowest outreach penetration of 0.7 percent. OI and SAT had relatively better portfolio quality of 1.1 percent and 1.3 percent and these correspondingly reflected in their outreach penetration of 3.3 and 1.0 percent being among the best per the reporting MFIs. A further statistical correlation shows an inverse correlation of (0.6) between Portfolio at risk and Outreach to clients suggesting that a high PAR translates in to low outreach results and vice-versa. The r^2 yields 36 percent implying that 36 percent of low outreach results were accounted for by PAR and the remaining 64 percent are attributed to other factors. The study concludes that a high PAR at risk impacts negatively on outreach performance.

Table 4.11 Portfolio AT Risk (PAR)[14] per reporting MFIs

MFI	Risk analysis			Computing Correlation Coefficient (r) for Industry			
	Average PAR (X)	Penetration Level					
		Clients (Y)	%	⇨ Y	XY	X^2	Y^2
OI LTD	**1.1**	20,195	3.3	20	22	1.21	400
GCSL	**3.4**	10,604	1.8	11	37.4	11.56	121
NewPage	**2.7**	5,431	0.9	5	13.5	7.29	25
CFF	**5.7**	4,367	0.7	4	22.8	32.49	16
SAT	**1.3**	5,460	1.0	6	7.8	1.69	36
Average	**14.2**	**46,057**	**7.6**	**46**	**103.5**	**54.24**	**598**

(Outreach baseline study, 2008)

[14] A high PAR means adverse impacts and vice-versa
r = - 0.6

4.4.5 Logistical Capacity by Institutions

Generally the availability of essential logistical infrastructure drives outreach of MFIs to clients. ICT infrastructure particularly computers coupled with networking helps in rapid data processing thus, it aids generating on-time report on clients performance with regard to loan receipt and repayments which in turn also helps credit analyst and management to make decision in terms of loan approval and disapproval.

4.4.5.1 ICT

Table 4.12 shows Opportunity International LTD and Garden city LTD, accounted for the highest number of computers of 80 and 84 respectively. Correspondingly OI and GCSL achieved the highest outreach performance of 20,195 and 10,604 borrowers respectively. Personnel of OI shares 5 computers per staff whilst 2 personnel shares 1 computer in GCSL. In the FNGOs category, SAT accounted for the majority of 62 computers and also achieved the high outreach performance of about 5,460 borrowers. Similar patterns were observed for NewPage and CFF with 15 and 11 computers and reaching 5,431 and 4367 clients respectively. These outreach performance patterns in terms of number of computers suggest that institutions with more computers (ICT Infrastructure) are able to serve higher number of clients (Table 4.12).

Table 4.12 Logistical capacity by institutions – ICT

MFI type	MFI	Computers	Net working	Computers per		Outreach Penetration		
				Staff	Clients	Loan disbursed (GH ¢)	Clients reached	Penetration (%)
S&Ls	OI LTD	80	Wide area	1:5	1:252	6,079,576	20,195	3.3
	GCSL	84	Internal	1:2	1:126	6,677,539	10,604	1.8
Total		164		1:3.5	1:136	12,757,115	30,799	5.1
FNGOs	NewPage	15	Local Area	1.3	1:362	1,971,450	5,431	0.9
	CFF	11	Internal	1.1	1:397	396,994	4,367	0.7
	SAT	62	Local Area	1:3	1:88	1,358,360	5,460	1.0
Total		88		1:2.3	1:282	3,726,804	15,258	2.5
Grand Total/Average		**252**		**1:3**	**1:224**	**16,483,919**	**46,057**	**7.6**

(Outreach baseline study, 2008)

4.4.5.2 Number of Branch

Availability of offices/branches brings micro credit closer to potential clients thus makes it convenient and less costly to transact business with the closest branch. From the institutional view point, branch development is a key strategy to reach out to the critical masses. The 5 reporting MFIs have a total of 17 branches[15] in the metropolis that reached 46057 borrowers yielding outreach penetration of 7.6 percent. Again, all the FNGOs have 3 branches each in the metropolis making a total of 9 branches that served a total of 15,258 borrowers yielding outreach penetration of 2.5 percent of 603,812 potential clients (Table 4.13). The S&L accounted for the remaining 8 braches reaching 30,799 borrowers representing the highest outreach penetration of 5.1 percent of the 603,812 potential clients (Table 4.13). The study therefore concludes that branch expansion alone does not translate into outreach but when combined with other factors such as availability of funds for on-lending to the potential clients.

4.4.5.3 Motor Vehicle

In order to facilitate operations motor vehicles have become important factors in achieving outreach. Motor vehicles further enhance effective monitoring and increased geographical spread. From Table 4.13, FNGOs have acquired a total of 33 motor vehicles more than the 8 motor vehicles for S&Ls. This was because comprising the number of vehicles for NewPage was 8 motor cycles that were used to reach communities that cars could not ply. SAT alone has the majority of 20 vehicles representing 1 and 273 vehicle per staff and clients respectively and recording the third highest outreach penetration of 1.0 percent. In the S&L category, OI has the majority of 6 vehicles representing 63 and 3,366 vehicle per staff and clients respectively and this correspondingly gives OI achieve the highest outreach penetration of 3.3 percent. Even though the study finds that there are no consistency between numbers of vehicles acquired and outreach performance among the various reporting institutions yet, the study can conclude that it is one of the key means to reaching out to clients in the remote areas of the metropolis.

[15] OI and SAT have little business in the metropolis yet, they have massive presence across the country. However the analysis is only limited to networks in the study area (KMA)

Table 4.13 Logistical capacity by institutions – Motor Vehicle

MFI type	MFI	Motor vehicle	Branches	Vehicles per		Outreach Level	
				Staff	Clients	Clients	Penetration (%)
S&Ls	OI LTD	6	3	1:63	1:3366	20,195	3.3
	GCSL	2	5	1:100	1:5302	10,604	1.8
Total		8	8	1:82	1:2084	21,799	5.1
FNGOs	NewPage	12 (8)[16]	3	1:4	1:453	5,431	0.9
	CFF	1	3	1:12	1:4367	4,367	0.7
	SAT	20	3	1:1.1	1:273	5,460	1.0
Total		33	9	1:6	1:462	15,258	2.5
Grand Total/Average		**41**	**17**	**1:36**	**1:904**	**46,057**	**7.6**

(Outreach baseline study, 2008)

4.5 Summary

The discussions in this chapter have systematically provided both aggregated and disaggregated analytic appreciation of outreach performances by the 5 reporting institutions, analysed in terms of degree of outreach, conditions of clients' reached and factors that influenced outreach. The study established that a total of 70,535 savers and 46,057 borrowers were reached with a total amount of GH¢12,599,294 savings mobilized from them, and GH¢16,483,919 loan funds disbursed to them. This yields an outreach penetration of 12 percent for saving clients and 7.6 percent for loan clients of the potential market of 603,812 clients. About 75 percent of clients earned incomes below the poverty line implying that majority of clients are poor. Availability of funds, Number of loan officers, Risk factors and a scalable infrastructure were identified as some of the factors that influenced outreach. The next chapter thoroughly summarizes these key findings under various sub-headings.

[16] Included in the number of vehicle was 8 motor cycles for NewPage Financial Services

CHAPTER FIVE
SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.0 Introduction

Chapter Four presented analytic picture of outreach performance. As a follow up, this chapter presents a summary of the findings from Chapter Four. The findings and their implications are discussed under sub-headings after which recommendations and conclusion were made geared towards strategies to expand outreach.

5.1 Summary of findings and Implications

5.1.1 Outreach to Clients:

i. A total of 46,057 loan clients and 70,534 saving clients were reached. This accounted for 7.6 percent and 12 percent respectively of the potential clients' population of 603,812 clients. Averagely this represents Borrowers to Savers Ratio of 0.65, which depicts the reporting institutions, served about two times voluntary savers than borrowers.

ii. A quantum of GH¢16,483,919 loan funds was disbursed among 46,057 borrowers which yields an average loan size of GH¢358 per borrower. The S&Ls disbursed the bigger amount of GH¢12,757,115 among 30,799 borrowers which represents 77 percent per the reporting MFIs. The remaining 23 percent was disbursed by the FNGOs, disbursing an amount of GH¢3,726,804 among 15,258 borrowers.

iii. In terms of savings, the reporting MFIs had mobilized a total of GH¢12,599,294 savings. The S&Ls accounted for GH¢11,527,765 savings which represents 91 percent and the remaining 9 percent was accounted for by the FNGOs. This translates in to Loans to Savings Ratio of 3.4 and 1.1 for FNGOs and S&Ls respectively, implying that FNGOs have limited savings as compared to S&Ls.

5.2 Socioeconomic Levels:

a) Age and Gender Distribution

The majority of clients were between ages 30 to 49 years which represent 75 percent of clients' population. This shows that the majority of the clients belong to the economically active age group. However the gender distribution was skewed in favour of women, accounting for as high as 81 percent of 100 clients' population. This shows that S&Ls and FNGOs focused more on female clients than the male.

b) Client Poverty and Income levels

The average outstanding loan per borrower was GH¢414 and GH¢357 for the S&Ls and FNGOs respectively. This represents 69 percent and 60 percent of per capita GDP[17] respectively. This statistic shows that clients are not poor. Contrary, a majority of 75 percent of clients earned income per month less than $1 a day[18] with an average income of GH¢189. This implies that majority of the clients are below the poverty line according to the United Nations Standard. This reveals that, the correlation between loan balances and poverty is very far from precise. However average savings balances were GH¢216 and GH¢62 representing 36 percent and 10 percent GDP per capita for S&Ls and FNGOs respectively suggesting that clients particularly those from the FNGOs are at the lower end of the poverty level.

c) Clients Enterprises and Spatial distribution

The study showed 56 percent of clients were petty traders, followed by Artisans (25 percent) and Food processing (15 percent). The last but not the least was Agriculture which accounted for 4 percent. Petty trading was popular because of the impact of globalization which allows a lot of imports in to the country hence boosting commerce in spite of production. In terms of spatial distribution, a majority of the clients were located in the peri-urban areas (65 percent) and a few clients (13 percent) were located in the rural areas of the metropolis.

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[17] Average outstanding balance below 20 percent of per capita GDP is regarded as a rough indication that clients are very poor (CGAP Poverty Assessment Tool, 2003)

[18] The study benchmarked income levels of clients with the United Nations Standard which classify persons earning income below $1 a day as below the poverty line

d) Asset acquisition

The study shows majority of 90 clients acquired Radio and Fan whilst a minority of 20 clients acquired TV and Fridge. Generally lesser number of clients acquired more expensive assets such as TV and Refrigerator while majority of clients acquired less expensive assets including Radio and Fan. This reconcile with the finding that 75 percent of clients earned incomes below the poverty line ($1 a day) hence were poor.

5.3 Outreach Determinants:

a) Availability of Funds

The study established positive correlation (0.6) between loanable funds (savings) and outreach performance. The study shows that institutions (OI and GCSL) that mobilized high savings achieved high outreach results and vice-versa. This implies that expanded outreach depends on the level of loanable funds available to MFIs for on-lending to potential clients. Thus availability of funds is one of the key determinants of outreach.

b) Operational Self-Sufficiency (OSS)

According to the study, the average OSS for the reporting MFIs was 110 percent. This implies the reporting MFIs were at least able to cover their expense with their revenues. However the study was unable to establish any strong correlation between OSS and outreach performance. Because with an r^2 of 1 percent suggest neutral or very weak relationship. An example was SAT which had the highest profitability of 115 percent but achieved low outreach penetration of 1.0 percent compared to OI which had a low OSS of 110 percent yet achieved the highest outreach penetration of 3.3 percent.

c) Personnel – Loan Officers

The study observed that high outreach figures were achieved by institutions which have comparatively high number of loan officers but not their case load. OI had the highest loan officers of 59 personnel with a case load of 257 per clients and achieved the highest outreach of 20,195 borrowers. GCSL had the second highest loan officers of 24 personnel with a case load of 442 per clients and reached the second highest outreach of 10,604.

Similarly CFF with the least loan officers of 6 personnel had a case load of 386 per clients and reached the least number of 4367 borrowers.

d) Risk Factors (PAR)

A correlation between Portfolio at risk (PAR) and outreach shows an inverse relationship (0.6) for the total industry. This implies that a high PAR would yield low outreach performance. Averagely, CFF had the highest PAR of 5.7 percent and achieved the lowest outreach (4367) to clients. On the other hand, OI had a low PAR of 1.1 and correspondingly achieved the highest outreach of 20,195 clients against the potential market of 603,812 clients.

5.3.1 Logistical Capacity – ICT, Vehicles and Number of Branch

e) ICT

Evidence from the study shows a direct relationship between ICT infrastructure and outreach penetration. Institutions that have the highest ICT infrastructure performed very well in their outreach drives. OI and GCSL had the highest number of computers, 80 and 84 respectively and correspondingly reached the largest, 20,195 and 10,604 borrowers respectively. However the study was unable to conclude that outreach correlates with computer per staff or clients.

f) Motor Vehicle

FNGOs have acquired a total of 33 motor vehicles more than the 8 motor vehicles for S&Ls. However S&Ls performed better in outreach as compared to FNGOs. Even though Motor vehicles are effective in facilitating field operations and effective monitoring, yet the study was unable to conclude that motor vehicles directly impact on outreach performance. It is possible some of the vehicles were used more for administrative purposes instead of field operations which are directly related to outreach drives.

g) Number of Branch

The FNGOs have 3 branches each in the metropolis making a total of 9 branches that served a total of 15,258 borrowers yielding outreach penetration of 2.5 percent. The S&Ls accounted for the remaining 8 braches reaching 30,799 borrowers with outreach penetration of 5.1 percent implying that the S&Ls performed better as compared to FNGOs in over all outreach performance. This suggest that outreach may not depend on number of branches alone but a combination of number of factors such as availability of loanable funds, loan officers, ICT infrastructure and so forth.

5.4 Recommendations

5.4.1 MFIs and Clients:

5.4.1.1 Measures to increase Loanable Funds

Funding for the sub-sector were from three sources - the institutions themselves, government, and development partners. MFIs can mobilize more savings by developing diversified savings products to satisfy varying demands and attract various end-users to save with them. This can also be accompanied with promotional campaigns as a marketing strategy to appeal to the potential market. They should also improve their data management systems on clients so as to qualify for grants from donors. Government micro-credit schemes which offer low interest rates should also be exploited.

5.4.1.2 Strategies to Enhance Efficiency and Reduce Loan Delinquency

Findings from the study established an inverse correlation between Portfolio at risk and Outreach results for the industry. This undoubtedly is a disincentive towards expanding outreach. MFIs should reduce loan delinquency by ensuring efficiency in their operations. Strategies to ensure efficient operations include the following:

a) **Diversified Credit Delivery and Management:** Current strategies for credit delivery are inadequate hence, should be adequately diversified to fully meet the varying demands of the market and different categories of end-users.

b) Staff Upgrading: The staffing and competency levels of MFIs are still below what is desired thus needs to be enhanced through training for efficient and effective microfinance operations.

c) Effective and Efficient Governance Structure: There is a lack of well defined reporting systems and governance structure particularly for the FNGOs hence, MFIs should create in-house monitoring and evaluation units to continually measure progress of their activities consistently over time to enhance efficiency in their operations.

d) Ensure Proper Group formation Stages for Prospective Clients: MFIs should ensure that clients go through proper group formation stages before receiving credit for the first time. Properly formed groups have been argued to be important in ensuring high repayment performance. Jain (1996) for instance observes how such groups instill in its members high credit repayment culture rather than the contractual element of joint liability. These strategies above will ensure effective recovery of funds for re-lending.

5.4.2 Other Government Support

a). Direct Government Funding

The government is one of the sources of funding for the sub-sector. In the first place, available funds have not been adequate, and secondly, different sources come with conditions. Government micro-credit schemes (MASLOC) should grant loans to MFIs for on-lending to their clients at reduced interest rates than the commercial banks. The government should also set up a central microfinance fund to which MFIs can apply for on-lending. This will result in one of the fastest strategies of expanding outreach.

b). Government Credit Guarantees

Funding from commercial banks has always been associated with stringent conditions. However MFIs particularly FNGOs lacks adequate database on their clients, therefore are unable to meet the traditional commercial banking conditions, which require documentary evidence, long-standing bank customer relationship and collateral. The government should intervene by providing credit guarantees for them to be able to access funding from the commercial banks.

c). Capacity Building Programmes

Training programmes are very important because findings from the review shows that previous government schemes have suffered set backs because of lack of professionalism by scheme managers and high default rates on the part of beneficiaries. Hence capacity building activities should include various stakeholders in the sector including MASLOC, GHAMFIN, MFIs, relevant Ministries, and technical service providers with the view to upgrading capacity in the industry.

d). Review of Regulatory Instruments

Currently the financial regulation in Ghana prohibits FNGOs to mobilize savings from the public. This affects availability of funds for on-lending to clients since they have to depend largely on grants which are associated with conditions they do not meet. A review of this instrument would increase access to available funds through savings for FNGOs significantly to be able to expand outreach.

5.4.3 Local Governments – KMA:

a). Support Programmes – Infrastructure

KMA should create conducive environment by providing relevant infrastructure to support and enhance the activities of informal sector operators. This infrastructure should include construction of markets serviced with the necessary amenities. This is critical because most of these clients operate in unauthorized structures and in front of commercial store buildings which do not guarantee sustainability of their businesses due to periodic city decongestion exercises, coupled with natural disasters such as rain storms. Provision of infrastructure would assure sustainable markets for clients.

5.5 Conclusion

This report mainly used CGAP Format and other qualitative tools to analyse outreach performance of the reporting MFIs that provided significant insights into the direction of the sector in terms of growth and outreach performance in the Kumasi metropolis. The above tools were also complemented by assessment of the socioeconomic levels of clients that established the poverty conditions of clients reached. Even though there are other MFIs in the metropolis, the study could only survey 5 out of the 7 listed MFIs because the remaining 2 could not provide data.

The study finds that outreach degree was high among saving clients compared to loan clients. Outreach to saving clients underscores the importance of savings products to both MFIs and their clients in the industry. In terms of quantum of funds, S&Ls mobilized over 10 times more savings and disbursed more loans as compared to FNGOs. This was not surprising because the financial regulation in Ghana prohibits savings mobilization by unregulated institutions. While using clients' average outstanding savings and loan balances to measure their poverty level shows that majority of them are above the poverty level, clients' poverty level measured in terms of income earned per month points to the fact that majority of 75 percent earned income below $1 a day implying that majority of clients are poor. Therefore clients' outstanding balances might not be a good measure of poverty levels. The implication for the industry is that the reporting MFIs reach a mix of clients, who could be classified as "poor" or "very poor" (CGAP, 2003).

The study also shows a correlation between Availability of funds, Portfolio at risk, Number of loan officers and ICT infrastructure with Outreach performance. Since the study establishes a neutral or very weak positive correlation between Operational Self-Sufficiency and Outreach performance, a further research with a much wider scope is proposed to further test this variable.

In order for outreach to be expanded, the study recommends efficiency in MFIs operation, staff upgrading, and proper group formation stages should be ensured by the MFIs that would eventually reduce delinquency of loans. Secondly the government should support the sub-sector through direct credit and credit guarantees and also to review the regulatory framework that prohibits the FNGOs from mobilizing savings from the public. This would increase the amount of loanable funds available to MFIs for on-lending and would eventually translate into increased outreach performance. The local government should also enhance MFIs operation through the provision and development of essential infrastructure to support their operations in the informal economy.

It is gratifying to note that the Government of Ghana has adopted microfinance as one of the important strategies for poverty reduction and wealth creation. Recognizing the role various institutions and individuals can play to ensure the achievement of this national vision of achieving the MDGs and also becoming a middle income country by the year 2015, there is the need to quicken the pace of reforms in the microfinance sector in order to unleash its full potential for accelerated growth and poverty reduction. A key strategy to reach out to more clients requires that government creates the enabling environment that allows for the development of more MFI services in the country.

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APPENDICES

Appendix 1. List of Key Informants

Key Informants

NAME	DESIGNATION	INSTITUTION	LOCATION
Joseph Agamah	Director	Cedi Finance Foundation	Kumasi
Christie Kouffie	Administrator	Opportunity International Savings and Loans LTD	Kumasi
Richmond Akwaboa	Personnel Manager	Garden City Savings and Loans LTD	Kumasi
Vincent Amposah	Data Analyst	Sinapi Aba Trust	Kumasi
Emmanuel Shaft Boamah	Executive Director	NewPage Financial Services	Kumasi

Appendix 2. Questionnaire for MFIs:

OUTREACH OF MFIs IN KUMASI METROPOLIS

PROGRAMME: DEVELOPMENT POLICY AND PLANNING (MSC).

DEPARTMENT OF PLANNING, KNUST- KUMASI

QUESTIONNAIRE FOR MFIs

Name of MFI:…………………………………..   Date of interview……………..

Name of respondent and designation…………………   MFI type………………………

……

Please fill the following table (A – G) appropriately below:

A. Outreach Indicators

INDICATORS	TIME FRAME			
	2004	2005	2006	2007
1. Number of active borrowers				
2. GLP: Gross Loan Portfolio				
3. No. of female borrowers				
4. No. of male borrowers				
5. Total members				
6. Total savings				
7. No. of savers with passbook and time deposit accounts				

INDICATORS THAT INFLUENCE OUTREACH:

B. Efficiency and Productivity

INDICATORS	**TIME FRAME**			
	2004	2005	2006	2007
8. Number of Loan officers				
9. Total Number of Personnel				

C. Financial Sustainability (Profitability)

INDICATORS	TIME FRAME			
	2004	2005	2006	2007
10. Operational Self-Sufficiency (OSS)				
OSS Formula: financial revenue / (financial expense + Net loan loss provision expense + operating expense				

D. Risk Analysis

INDICATORS	TIME FRAME			
	2004	2005	2006	2007
11. Outstanding loan balance, > 30 days overdue				

E. What other factors influence outreach?

Factors	Please comment how
Infrastructure ICT Vehicles	
Type of economic activity	
Availability of funds	
Spatial location	
MFIs concentration in an area	
Others, please specify	

F. What type of services do you provide?

Type of service	Target group
List: 1. 2. 3.	

G. How many branches do you have?

Number of branches	Town/Region

Appendix 3. Questionnaire for Clients:

ASSESSING OUTREACH OF MFIs IN ASHANTI

PROGRAMME: DEVELOPMENT POLICY AND PLANNING (MSC).

DEPARTMENT OF PLANNING, KNUST- KUMASI

QUESTIONNAIRE TO ASSESS CLIENTS' SOCIO-ECONOMIC CONDITIONS

Name of respondent:............................. Name of interviewer............

Date of Interview...............................

....

SECTION A: Human Capital Indicators

A1. Age of respondent...

A2. Sex: 1.Male ☐ 2. Female ☐

A3. Highest educational level? 1. Primary ☐ 2. Elemetary/JSS ☐ 3. Sec/Voc/Tech
4. Never been to school ☐

A4. Main occupation ?..

A5. Location of work...

A6. Income earned from current occupation per day/month.........................

SECTION B. DWELLING-RELATED INDICATORS

B7. Where do you stay?...

B8. What is the size of your household?..

B9. How many rooms do you have per household? ....

SECTION C: ASSET-BASED INDICATORS

C10. Have you acquired any asset? Yes ☐ No ☐

Type of Asset owned
List

Appendix 4: Computation of Correlation Coefficient (r) for the reporting MFIs

A. Computation of r from Table 4.8:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2] * [N\sum Y^2 - (\sum Y)^2]}}$$

Where N = number of pairs of values (X, Y) in the data. From Table 4.8 above N = 5.
From the table:

$$r = \frac{5 * 173.2 - 13 * 46}{\sqrt{(5 * 80.5 - 13^2) * (5*598 - 46^2)}} = 0.6, \quad r^2 = 36\%.$$

B. Computation of r from Table 4.10:

From Table 4.10 above and substituting equation 1, r becomes:

$$r = \frac{5 * 471 - 50 * 46}{\sqrt{(5 * 562 - 46^2) * (5*598 - 46^2)}} = 0.1, \quad r^2 = 1\%.$$

C. Computation of r from Table 4.11:

From Table 4.11 above and substituting equation 1 above:

$$r = \frac{5 * 103.5 - 14.2 * 46}{\sqrt{(5*54.24 - 14.2^2) * (5*598 - 46^2)}} = -0.6, \quad r^2 = 36\%.$$