KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,

KUMASI

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

INCOME LEVELS AND FINANCIAL INSTITUTIONS' PREFERENCE

BY:

CLEMENT OPPONG

(BA ECONOMICS)

A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE OF THE SCHOOL OF BUSINESS, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) DEGREE

OCTOBER, 2015

DECLARATION

I do declare that with the exception of acknowledged quotations and ideas attributed to specified sources, this is entirely my own and has never been presented anywhere.

I therefore take responsibility for any short-comings that may be detected in the work.

Clement Oppong (PG7609512)……………. …………….. ……………………

(Student) Signature Date

Certified by:

Mr. Michael Adusei ………………………….…… ……….……………

(Supervisor) Signature Date

Certified by:

Dr. K.O Appiah ………………………….. ……….……………

(Head of department) Signature Date

ACKNOWLEDGEMENT

My first and foremost acknowledgement goes to the Almighty God for HIS elegance and providence in my life. But for HIS grace, I would not have made it this far. I am highly indebted to HIM for his wisdom, strength, and providence bestowed on me in the period of this work.

I wish to express my profound gratitude to my lovely wife, Racheal, and my two sweet daughters, Abena and Adwoa, and the entire family of Opanin Kofi Gyamerah for their tolerance and support during these periods of study.

I would like to thank my supervisor, Mr. Michael Adusei for his candid instructions, criticisms and supervision that have enabled me to come out with this thesis successfully.

I would also thank the Dean, Prof. J.M. Frimpong and all the lecturers of the KNUST School of Business especially the Accounting and Finance Department for adding to my knowledge, and also for exhibition of great professionalism in the pursuit of their duties.

I would want to thank the various authors whose works were of great importance to the success of this research. To all the respondents of the questionnaires administered, I say a big thank you to you all.

I wish to express my profound gratitude to Mr. Samuel O.A. Boakye for his marvelous support during this study.

I also want to thank Mr. Kwasi Eduam Eduafo, Mr. Owusu Ansah, and Joachim for their assistance.

DEDICATION

I dedicate this work to the GLORY OF GOD, and to my lovely wife, Racheal, and my two sweet daughters, Abena and Adwoa, and the entire family of Opanin Kofi Gyamerah.

ABSTRACT

The study investigates whether low-income earners prefer microfinance institution to a commercial bank. It also investigates financial institution preference between male and female gender. The study is conducted using questionnaire to gather primary data from randomly selected adults in the Kumasi Metropolis. Cross tabulation and binary logistic regression analysis have been used for the study. The findings of the study reveal that gender has a positive, statistically insignificant relationship with microfinance, implying females are not better than males in terms of microfinance preference. Moreover, the results show that income has a positive but statistically insignificant relationship with financial institution preference, meaning low-income earners are not likely to prefer a microfinance institution to a commercial bank. By extrapolation low-income earners are rather more likely to transact banking business with a commercial bank than a microfinance institution. In view of the above findings, it is recommended that microfinance institutions should not target the low-income group and adult females alone but should also map out strategies to reach out to the wealthy adult individuals of both genders. The study also recommends an introduction of deposit insurance which provides some assurance to microfinance depositors that in event of collapse of their institutions insurance companies will come to their rescue.

TABLE OF CONTENTS

DECLARATION ii
ACKNOWLEDGEMENT iii
DEDICATION iv
ABSTRACT v
LIST OF TABLES viii
LIST OF ABBREVIATION ix

CHAPTER ONE 1
INTRODUCTION 1
1.0 BACKGROUND TO THE STUDY 1
1.2 STATEMENT OF PROBLEM 4
1.3. OBJECTIVES OF THE STUDY 4
1.4 RESEARCH QUESTIONS 4
1.5 LIMITATIONS OF THE STUDY 5
1.6 SIGNIFICANCE OF THE STUDY 5
1.7 SCOPE OF THE STUDY 6
1.8 RESEARCH METHODOLOGY 6
1.9 ORGANIZATION OF THE STUDY 7

CHAPTER TWO 8
LITERATURE REVIEW 8
2.0 INTRODUCTION 8
2.1 DEFINITIONS AND CONCEPTS OF MICROFINANCE 8
2.2 THEORIES OF MICROFINANCE 13
2.3 THE HISTORY OF MICROFINANCE 15
2.4 EVOLUTION OF THE MICROFINANCE SUB-SECTOR IN GHANA 17
2.5 MICROFINANCE AND DEVELOPMENT 18
2.6 CONVENTIONAL IMPACT ASSESSMENTS 20
2.7 CHARACTERISTICS OF MICROFINANCE 27
2.8 MICROCREDIT AS DEVELOPMENT TOOL 28
2.9 MICROFINANCE INSTITUTIONS 28

2.10 ORGANIZATION OF MICROFINANCE INSTITUTIONS 30
2.10.1 Cooperative Financial Institution 30
2.10.2 Group Lending 30
2.10.3 Individual Lending 31
2.10.4 Self-Help Groups (SHG) 31
2.10.5 Village Banking 32
2.11 FACTORS THAT DETERMINE ACCESS TO MICROFINANCE 32

CHAPTER THREE 34
METHODOLOGY 34
3.0 INTRODUCTION 34
3.1 THE STUDY AREA – KUMASI METROPOLIS 34
3.2 THE STUDY POPULATION 35
3.3 THE SAMPLE 35
3.4 SAMPLING TECHNIQUES 35
3.5 RESEARCH INSTRUMENT 35
3.6 DATA ANALYSIS TECHNIQUES 36

CHAPTER FOUR 38
PRESENTATION OF DATA AND ANALYSIS 38
4.0 INTRODUCTION 38
4.1 CROSS TABULATION OF GENDER AND FINANCIAL INSTITUTION PREFERENCE 38
4.2 CROSS TABULATION OF INCOME AND FINANCIAL INSTITUTION PREFERENCE 39
4.3 RESULTS OF BINARY LOGISTIC REGRESSION ANALYSIS 39

CHAPTER FIVE 42
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS 42
5.0 INTRODUCTION 42
5.1 SUMMARY OF FINDINGS 42
5.2 CONCLUSION 43
5.3 RECOMMENDATIONS 43
REFERENCES 45
APPENDIX 51

LIST OF TABLES

Table 1: Cross Tabulation of Gender and Financial Institution Preference 38

Table 2: Cross Tabulation of Income and Financial Institution Preference 39

Table 3: Results of Logistic Regression: Dependent Variable-Financial Institution Preference 41

LIST OF ABBREVIATION

GHAMFIN – The Ghana Microfinance Institution Network

KNUST – Kwame Nkrumah University of Science and Technology

MFIs – Microfinance Institutions

MoF – Ministry of Finance

RCBs – Rural and Community Banks

ROSCAs – Rotating Savings and Credit Association

SMEs – Small and Medium Scale Enterprises

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND TO THE STUDY

Microfinance denotes the provision of saving opportunities, loans and other financial services to the underprivileged. In order to run their own businesses people need capital and financial services like savings, money transfer systems, insurance, pensions and information for helping stabilizing their consumption and shield themselves against risks. The definition of micro-credit refers to loans made to borrowers who need more than just a loan. With money only, it is difficult to start up or expand businesses. There is a need for insurance, transactions services, self-employment services and instructions for starting up small businesses. The term 'microfinance' covers micro-credit and those financial services. Special institutions deliver this microfinance to people who lack collateral. Commercial Banks see developing countries not as a profitable market. High transaction costs and risks are the main problems why microfinance is not yet a product of some commercial banks.

In addition to the transaction costs, there are numerous risks in extending micro-credit. The first risk is adverse selection; the individuals hide information or supply wrong information. The second is the possibility that, moral hazard problems exist. This means that financial Institutions are unaware of the intentions of the clients. To decrease these risks, several solutions exist. One of them is group lending which basically denotes a reference to measures by individuals, without collateral who collaborate with the aspiration of getting credit from a lender. The particular characteristic is that credits are given to individuals though the liability impinges on the whole group. For example, if an individual has problems with repayments, the whole group will bear the consequences.

Group lending therefore, overcomes the moral hazards problem. The group members, who often live closely together, can impose social and economic sanctions on defaulting individuals. The key characteristics of the microfinance institution which distinguishes it from commercial banks are: (1) It is an alternative to informal credit (2) It usually requires no collateral (3) It has basic procedures and virtually no documentation. (4) It usually focuses on grouped lending (5) It offers flexible and favourable repayment plans (6) It makes available financial support to members of a group should there be an emergency (7) It targets the most neglected section of the populace of a country.

Until formal banking took centre-stage in the country, a lot of the underprivileged, mainly women and residents of rural communities fell principally on the informal financial sector and the semi-formal savings and loan services Botei-Doku Ellen and E. Aryettey (1996)). The aim of the formal micro-credit institutions in Ghana aimed at supporting economic and social efforts for the less privileged, particularly rural families. For “Susu schemes”, regular weekly meetings were held during which each and every woman donated a set sum of money into a pot that was given to one of the women each week. This pot is then rotated over a period until all members had their turn.

Peter Poreku Dery, a catholic priest is credited with the introduction of Credit Unions in Ghana in 1955 when he founded a co-operative credit institution in the Upper West Region, specifically in a town called Jirapa. He developed his credit union along the lines of the German concept that was in operation in the year 1846. The aim hinged on promoting thrift and the saving culture among members. Through such a union, very poor people in a community are able to save money and also, benefit from loans to undertake economic activities.

The Ghana Microfinance Institution Network (GHAMFIN), the umbrella entity representing every micro-credit organization, was founded in 1998 and has now seen its members standing at over 70. Currently, Sinapi Aba Trust is regarded to be the king-pin in microfinance world in Ghana, with a client-base of over (15,000). Other key leaders in the system are Uni Credit, Opportunity International Ltd., Women's World Banking, Ezi Savings and Loans, Pro-credit Ltd., First National and Express Savings and Loans Ltd. Over the years, the requirement for a strategic plan to clarify the mission and goals of microfinance institutions and to strengthen stakeholder's linkages led to the development of a draft policy for microfinance in 2006.

We can focus on the impact of microfinance activities on poor people's livelihood from two dimensions. The first is the opportunity created by the microfinance system for people to save, borrow or engage in other financial activities. The second dimension is the application of proceeds from production due to access to credit. The issue of effectively educating the people to understand the financial system then becomes critical. When people are not well informed they can act in ways that are not beneficial to their livelihoods. For instance, a study by Akudugu in 2009 showed that women in the Upper East region who perceived that high education is a requirement for accessing credit from financial institutions were less likely to successfully access credit.

There are several key reasons for examining the influence of microfinance institutions in Ghana. One good reason is that although GHAMFIN says that as of 2001, there were over 233 MFIs in the country, ever since MFIs in Ghana took root, very little data and information are available for public consumption and scrutiny.

1.2 STATEMENT OF PROBLEM

The general consensus among finance experts is that Microfinance has the potential to become one of the most effective strategies ever to fight worldwide poverty especially among the world's most underprivileged. Many are known to survive on a dollar a day or less and this target community can very well benefit from micro-credit through loans given out for micro-businesses.

Otero (1999) defines Microfinance as "the provision of financial services to low income and very poor self-employed people". Arun, Imai and Sinha, (2006); Fernando, (2004); Simanowitz, (2002) all believe that microfinance has a key role in helping half acute world poverty by 2015. This presupposes that microfinance is for the poor or those who earn low income. But the question is; is microfinance really the preference of the poor? Answering this question is the focus of this study.

1.3. OBJECTIVES OF THE STUDY

The general aim of this research work is to evaluate the income levels and microfinance subscription in the Kumasi Metropolis. The key aims of this study are:

- To assess whether low income earners prefer microfinance to commercial banks.
- To determine other factors that influence the preference for microfinance subscription.

1.4 RESEARCH QUESTIONS

This research attempts to proffer answers to the questions below:

- Do low income earners prefer microfinance to commercial banks?
- What are the other factors that influence the preference for microfinance subscription against commercial banks?

1.5 LIMITATIONS OF THE STUDY

This study is limited to income levels and microfinance subscription. Thus, it does not treat all the topics in microfinance. Also, it is limited to only subscribers in the Kumasi Metropolis and hence, the data collected might not be the true representation of the overall opinion of microfinance subscribers concerning their operations. Again, time constraint had a limitation on the study since the researcher is a part-time student combining lectures, studies and work and therefore only information exclusive to this study was taken into account. Limitations regarding the sampling process, especially in the choice of a certain number out of the overall population also affected the work, not least the key process adopted for this study in proffering answers for the research questions. Finally, there were serious limitations in the people chosen for the research as some were reluctant to answer the questionnaire.

1.6 SIGNIFICANCE OF THE STUDY

Governments in developing countries, including Ghana for the past decade have been seeking for the panacea to reduce poverty and improve the living standards of their people. The economies of these countries could be linked to the performance of self-employed individuals as well as Small and Medium Scale Enterprises (SMEs) operating as major businesses. These businesses are confronted with a problem of mobilizing enough capital as traditional banks see them to be unattractive when it comes to credit delivery. Microfinance institutions (MFIs) therefore present themselves as one of the best ways of delivering loans because borrowers (Individuals and SMEs) are too poor to have much in the way of marketable assets.

Microfinance institutions (MFIs) in recent times have come in to provide non-collateralized credit to SMEs and individuals who are considered as active poor in microfinance circles. According to Kimenyi et al,(1978), the poor do not essentially need loans now, but rather, the chance to get a timely loan.

Moreover, at the end of the day, this research will come in handy as a guide to MFIs to support their penetration widely in the economy of the nation. The result could promote employment opportunities as indepth appreciation into credit union penetrations may open the door for others to refer to this researcher for ideas to boost their activities in this sector.

1.7 SCOPE OF THE STUDY

This research is concerned with income levels and microfinance subscription. Thus, whether or not low income earners prefer microfinance institutions to commercial banks. The study geographically is carried out in the Kumasi Metropolis focusing on subscribers of selected Microfinance institutions such as Beige Capital, Sinapi Aba Trust, Advans Savings and Loans etc and commercial banks.

1.8 RESEARCH METHODOLOGY

The research adopts both primary and secondary source of data compilation. Quantitative and qualitative processes of data analysis and discussion are also employed. With regards to the primary source, broad-based survey questionnaires are designed to sum up the facts and figures, as well as methodical interviews with subscribers of Microfinance institutions as well as some selected staff members.

Besides primary data, secondary data are also employed in comparing and analysing with the primary data to reach a clear position. By way of reviewing articles, reports and relevant material, this is achieved.. In chapter three, a far more comprehensive methodology is outlined.

1.9 ORGANIZATION OF THE STUDY

This research work would be pre-arranged into five key chapters. Chapter one wraps up the background data to the study. This captures the statement of problem, objectives of the study, research questions, justification, scope, and limitation of the study. Chapter two then appraises significant related material on the concept of microfinance in Ghana.

Chapter three gives the comprehensive methodology while chapter four handles the analysis and discussion of the data gathered from the field. Finally, chapter five wraps up the summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This section reviews definitions and terms in microfinance and commercial banks. It also reviews the various theories and structures involved in the activities of microfinance. Again, microfinance in Ghana is extensively reviewed.

2.1 DEFINITIONS AND CONCEPTS OF MICROFINANCE

Otero (1999) defines Microfinance as “the provision of financial services to low income poor and very poor self-employed people”. To Ledgerwood (1999), these financial services basically include savings and credit but can also include other financial services such as insurance and payment services. On the other hand, Schreiner and Colombet (2001) regard Microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Thus, microfinance may be explained as providing opportunities to people especially those in underserved communities to save, enjoy loans and insurance packages in a measure that they cannot get from the traditional financial institutions.

There is no denying the fact that microfinance promotes economic advancement by serving as a stop-gap sector for low-income clients neglected by the main financial sector. Because of the fact that poor people cannot take advantage of financial services from the traditional commercial banks due to their inability to provide collateral securities, microfinance comes in handy, according to Karlan and Goldberg, (2007), “to satisfy the needs of the poor exclusive of these conditions.” Indeed, regarding these sought-after financial activities, Park and Ren, (2001), say that “the poor people are willing to pay because of the added advantage they receive for not collateralizing anything.” This simply denotes to the ability to sustainably deliver such required services. Christen *et.al*, (2004) regards it as “a movement that envisions a world in which as many poor and near- poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.” It is already a known fact that poor individuals are unable to get loans from the traditional financial sector as a result of their inability to provide guarantee and collateral. Mayoux, (1999) adds that such poor people are constrained too because of other reasons such as most of them having “less education, no real experience and training, high cost for transactions of small loans and lower profit”. Consequent to this, they sink deeper and deeper into the poverty abyss. It is basically for this reason that led to the birth of new financial propositions in the form of micro-credit to serve the poor and hopelessly poor.

Some other important concepts related to poverty and relevant to this study need to be mentioned. People tend to be risk averse – in general we avoid taking unnecessary chances. When it comes to income, this usually means that people try to avoid “putting all their eggs in one basket”. A diverse production, not depending solely on farming or exclusively on raising livestock for example, is a way to avoid risk.

An effect of diversification can also be income smoothing over time, which is often desirable. Income tends to fluctuate over a lifetime and even over a year - the more it varies the harder it can be to have an even consumption. People generally want to keep a relatively even consumption, for instance to be able to get something to eat every day. With high dependency on a specific crop, the risk is high of very varying consumption possibilities – when harvest is good the family can eat, but when the weather fails starvation might not be far away.

Microfinance has also been variously defined. For instance, it is seen “as the means by which poor people convert small sums of money into large lump sums” Rutherford (1997). Micro-credit is a part and parcel of microfinance. Additionally, micro-saving is an important microfinance service which proverbs the window for very poor individuals to keep their money and other valuables safely and even rake in some interest. Savers ultimately enjoy lump sums in future for their current ongoing sacrifices. Microfinance usually also involve another component in micro-insurance which goes a long way to secure the future of the poor.

The poor, benefit greatly from microfinance institutions (MFIs) as a result of the latter’s engagement in broadening small credit facilities and other financial provisions to the former economic ventures. A MFI is basically exclusive of the government or the traditional banking sector as it is seen more as a non-governmental organization (NGO). Though used interchangeably, there is a clear difference between microfinance and micro-credit. Microcredit usually denote small loans, while microfinance is used to capture a situation where NGOs and MFIs add other financial services to their core mandate of offering loans. Such services may include but not limited to investment advice, insurance, savings and training among others. In sum, microcredit is a part and parcel of microfinance due to the fact that it involves extending loans to poor customers. However, microfinance does more by the fact that it also involves other non-credit financial services as indicated above. Unlike the traditional banking sector, no collateral security is required. Instead, microfinances use other options such as running cash flow analyses of potential loan recipients to judge their credit-worthiness.

It is very easy to understand the basics of lending to borrowers. Money or funds are provided to the borrower now together with a fixed interest rate payable in the future. To Bardhan and Udry, (1999) "this natural time delay in a debt contract, as compared to an instant exchange of two goods, makes lending potentially risky". He explains further that in less developing and developing countries, individuals who fail to get credit from the traditional banking sector opt for the informal sector, an indication that informal loan providers succeed in controlling data and overcoming implementation challenges.

Afrane,(2002) conducted a study in two countries, Ghana and South Africa and it revealed that though microfinance activities hold the capability to boost the circumstances of beneficiary community, "they also tend to create disturbing negative impacts, if necessary measures are not taken." To him, the main issue confronting MFIs for that reason, "is to be mindful of these negative tendencies so that appropriate steps can be taken to minimize these effects as much as possible." His study revealed further that through a comparative analysis of the impact conditions in both countries, "the impact trends and levels were not all that different." However, it came to the fore that South Africa held sway, both negatively and positively over Ghana. His conclusion from both impact research clearly showed that, in large part, microfinance activities have greatly influenced beneficiary lives in more ways than one and enhanced their general livelihood.

Beard, Hishigsuren and Opoku (2004) undertook a research based on monitoring clients of Sinapi Aba Trust in Ghana and they were a lot of interesting empirical revelations. Out of a overall sampled figure of 487 clients, 71% represented old clients, 25% were new clients while 4% corresponded to old clients who failed to get credit in their initial cycle of loan. From these representative figures, 87% were women. The report proved that there remained a great variation in sales revenue for the two distinct clientele. It was further demonstrated that there existed virtually no major variation in net profits, savings and expenses on kid’s education for both old clients and new clients. Finally, it also emerged that a lot of the clients were paid attention to the training opportunities provided by SAT while just 0.4% expressed disquiet about interest rate.

In order to determine overall considerations about a particular research subject and to keep pace with favoured research methods and general issues, we need to examine much relevant literature. Such a posture, will no doubt, influence the analytical framework and issues regarding data collection and research analysis. Copestake (2007), defines Microfinance here “in relation to its users, rather than in relation to other forms of finance as the supply of savings, credit, insurance and payment services to relatively poor people.” For Rutherford (1999), microfinance is simply a “means by which poor people convert sums of money into large lump sums.”

Although these two researchers above increase the scale of definition of microfinance, they fail to tell us the many opportunities widely available to poor beneficiaries from the microfinance institutions. On the other hand, the definition of Ledgerwood captures non-financial activities, a very useful yet overlooked element in definitions, which permits the poor to significantly exploit microfinance institutions. The works of Gallardo (2002) who is credited with investigating how microfinance as an institution is clarified in the Ghanaian perspective in the eyes of the Bank of Ghana (BoG) is noteworthy. Through his work, we get to know that the Non-Bank Financial Institutions’ (NBFIs) arm of the Bank of Ghana classifies microfinance institutions as all those institutions “lending to borrowers with the capacity to support loans of less than GH¢100 and in the case of group lending—with joint and several guarantees of members of the group—for an amount not exceeding GH¢500.” However, pitted against the huge inflationary levels in Ghana, definitions that offer exact statistics end up outmoded within a short while. Through Buyske (2004), we are enlightened on the fact that average global estimate of microfinance loan is set around $400 (about GH¢ 600).

Ledgerwood (1999) holds that not only does microfinance aim at offering services but also, remains a key development instrument. Largely united in the fact that microfinance is a vital device in the push towards the achievement of the Millennium Development Goals (MDGs) are Simanowitz and Brody (2004), UNCDF (2005a) and Murdoch, Littlefield and Hashemi (2003). Indeed, for UNCDF (2005b) the position is that microcredit bolsters the accomplishment of many Millennium Development Goals and exercises a vital responsibility in lots of its approaches. Overall, microfinance activities have echoed the development creed that prevailed during the different era. In a way, microfinance has been greatly influenced in its change discourse by development ideologies of the past.

2.2 THEORIES OF MICROFINANCE

Much of the theories of microfinance referred to in this research are credited to the works of Hulme and Mosley (1996). According to them, most growth and development efforts including microfinance are boosted by capital investment and other financial services. To them, there is enough evidence to underscore “a strong and positive correlation between growth and the share of investments in GDP.” Hulme, (1997) posits that just as there is a positive connection between financial outlay and economic advancement, poverty reduction among destitutes is achieved by way of financial investment in the poor by way of microfinance activities. El-Solh (1999) on the other hand, holds that microfinance per se cannot create income but is a key input in the process of promoting small businesses. Indeed, microfinance institutions are deemed vital in the economic system due to the fact that they support very small and small-scale businesses which are essential to the private sector, which is seen as an engine of growth for developing economies with market-oriented bias.

Many development writers also believe that microfinance engagements greatly empowers the poor. Chester and Kuhn, (2002); Hashemi, Schuler and Riley (1996) assert that as poor people take control in organizing and managing their groups formed to deal with microfinance companies, they end up becoming independent and empowered.

Empowerment is seen as very vital for marginalized women in most poor countries. Generally, the economic impact of microfinance is often regarded as the most important of all the underlying theories of this topic. This is because all that matters in microfinance is making funds available to the poor to invest in and generate income and profits for their livelihood. This is aptly captured by Meyer, (2002) who sums it up as a meaningful cycle: “credit leads to increased production and incomes, and allow for greater consumption and savings, and result in further investment.” But there are several criticisms against this proposition. It is held that microfinance activities have mainly been reviewed through impact assessments. (Hulme 1997) believes that several claims that microfinance has positively impacted on poverty reduction, business growth and development and not least, economic growth as a whole have been all but bereft of hard evidence. Murduch and Armendariz de Aghion (2005) and Hulme (1997) have jointly, in one of their research works, posited that impact assessments principally tries to answer the question: What would have occurred to the service user had the intervention not been there?

2.3 THE HISTORY OF MICROFINANCE

Although Microfinance has been in existence since the 19th century, it gained much recognition and prominence in the 1970s through the distinguished works of Muhammad Yunus, a noble prize winner of the Grameen Bank (2006). In those early days then, money lenders were unofficially undertaking the responsibilities of now traditional financial sector. It is held that professor Yunus set up the Grameen Bank in Bangladesh in 1983, convinced that access to credit is a fundamental human right and motivated by the need to help the poor emerge from strangulating poverty through giving them loans and offering them timeless financial principles. In a sense, we cannot regard microfinance as a new principle at all.

Microcredit has various definitions. Bajwa (2001), defines it as “a credit provided to the poor free-of-collateral (the only collateral is the ‘peer collateral’) through institutionalized mechanism.” He explains that “this credit is made available ‘as and when’ needed, at the doorstep of the client.” In a way, we can define Microcredit as facilitating small loans to individuals and micro-businesses to help them either to perpetuate or to boost their businesses. The chief beneficiaries are the poor and very poor people who would normally not qualify for loans from the traditional banking sector (Commonwealth Secretariat, 2001).

Schreiner (2000), defines microfinance as a “formal scheme designed to improve the well being of poor through better access to saving and services loans.” Microfinance therefore, according to Robinson and Marguerite (2001), refers to reaching out with credit and savings opportunities to the poor and the very poor people who “farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions;

who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban."

There is quite a distinction between microfinance and microcredit. Basically, the latter refers to very small loans provided by legally registered institutions for informal sector borrowers with virtually no collateral security while the former generally refers to microcredit plus all of other services such as savings, money transfers, insurance and other financial interventions aimed at poor and low-income people (*microfinancegateway.org*). Note however that presently, consumer loans offered to formal sector workers in line with computerized credit attainment is often not incorporated in the understanding of microcredit, though this could amend in time.

According to available literature, poor people usually failed to get the needed assistance from the formal banking system because "their savings were tiny, their loan demand was small, and they lacked loan collateral" (Yunus, 2001). The situation with the poor in struggling economies lacking access to traditional financial opportunities is very grave in the rural areas. This has limited their potential to kick-start new businesses and as Zeller and Meyer add, to acquire assets, fund emergency requirements and cover themselves in lieu of ill-health and tragedies (Meyer and Zeller, 2002). This is very unfortunate indeed for the rural poor. Therefore, microfinances have come in handy as their chief aim as proposed by the founding fathers of microfinance is to garner public support to boost the wellbeing of poor families, via enhanced access to small credit (Navajas, et al., 2000). In large part, public funds for microfinance organizations usually come with a strict directive to give preference to the poorest (Microcredit Summit, 2003). For instance, during the Microcredit Summit in 1997, much effort s were made to raise over US$20 billion to present microfinance services and products to 100 million of the world's poorest populace (Daley-Harris, 2007; Navajas et al., 2000). As underlined by Navajas et al. (2000), most microfinance organizations focus on serving those near the poverty line instead of the hopelessly poor leaving a lot of questions as to whether microfinance programmes are living up to their core mandate of mainly serving the underprivileged and vulnerable community.

There is a lot of noise about microfinance institutions claiming to serve clients outside the formal frontiers in line with their mandate, not much information is available to that effect particularly in sub-Saharan Africa (Buss, 2005; Lafourcade et al. 2005; Mayoux, 1999). Researchers are also caught in diverse positions about the depth of microfinance penetration/outreach efforts.

2.4 EVOLUTION OF THE MICROFINANCE SUB-SECTOR IN GHANA

The notion of microfinance has held sway in Ghana for a long time now as various forms of microfinance such as people putting together little savings and/or taking micro-loans from individuals and groups within the milieu of self-help to kick-start economic or farming activities is a known endeavour. Indeed, as far back as 1955, Canadian catholic missionaries in northern Ghana set up the first credit union in the country. "Susu," regarded as one of the microfinance schemes in the country spread into Ghana from Nigeria as early as the 20th century and took root over the years in various forms. Overtime, microfinance has flourished and grown into its present form, as a result of several financial sector programmes and policies fashioned out by successive governments post-independence. The following are noteworthy:

• Subsidized credits offered in the 1950s;

• Agricultural Development Bank was set up in 1965 to handle the financial requirements of the agricultural and fisheries sectors

• Paradigm shift to a liberalized financial regime in 1986;

• Rural and Community Banks (RCBs) were established with a clear mandate to commercial banks to save 20% of total portfolio to boost micro-lending to agriculture and small scale enterprises in the 1970s and early 1980s;

• Introduction of PNDC Law 328 in 1991 to facilitate the institution of various types of non-bank financial institutions, credit unions and savings and loans institutions.

2.5 MICROFINANCE AND DEVELOPMENT

Microfinance targets low income populace with a range of products and financial intermediary services such as provision of saving opportunities, loans, insurance cover, money transfer services and the like. Thus there is a wide-ranging opportunity for the poor and this is all down to a number of reasons:

• The reality that poor people need both funding and financial services to undertake productive ventures so as to improve their livelihood;

• The understanding that the underprivileged have the wherewithal to apply loans judiciously into economic ventures and repay them through savings

• The clarity that the traditional financial system has neglected the poor in terms of provision of financial support, thereby creating a high demand for loans and other financial services that need to be filled to help them facilitate saving services to the underprivileged;

• The position that microfinance is a fruitful and sustainable initiative;

The literature is of the view that poor people can move out of the poverty morass if microfinance successfully generates access to valuable capital for the underprivileged together with the necessary social and human capital and appropriate training. In this sense, Otero (1999) argues that by providing physical capital to a poor person, they are empowered to industriously undertake economic ventures.

Otero (1999) regards microfinance as not merely facilitating credit to the underprivileged to help them fight poverty on an individual perspective, but also at an institutional level. To him, there should be opportunities for the marginalized poor. Littlefield and Rosenberg (2004) posit that poor people have long been sidelined by the formal financial sector of the economy so MFIs have rightly popped up to correct this market failure. By so doing, they will be incorporated into the formal financial system themselves and access funding from capital markets to undertake their activities, thereby reaching out to more and more poor people as Otero, (1999) sees it. In recent times, key critics such as the IMF (2005), Simanowitz and Brody (2004), Littlefield, Hashemi and Murduch (2003), and have passed remarks on the decisive task of micro-credit in helping achieve the Millennium Development Goals of the World Bank . However, there are dissenters to the great role that micro-credit can assume in development discourse. Hulme and Mosley (1996) for instance, hold that "most contemporary schemes are less effective than they might be". These critics dispute the view that that micro-credit is hardly a solution to poverty reduction, believing rather that in certain instances, the underprivileged have had their situations aggravated. Be that as it may, it is generally held that microfinance can make possible the realization of the Millennium Development Goals (MDGs) as well as enhance national programmes that seek to improve the general livelihood of the vulnerable community.

Ex-UN Secretary General Kofi Annan pointed out during the introduction of the International Year of Micro Credit (2005) that, "Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs,"(Kofi Annan, 2003). The general conclusion from this literature is that although microfinance is not the main solution to poverty reduction and its concomitant developmental challenges, it no doubt, offers enough options to show poverty the door in various circumstances should it be properly applied especially for women.

2.6 CONVENTIONAL IMPACT ASSESSMENTS

This study investigates some familiar standard impact reviews to establish how far implementation practices are integrated in their work. It follows an often cited study by Khandker and Pitt (1998) which researched into the influence of gender involvement in the Grameen Bank and two other group-based microcredit schemes in Bangladesh on labour supply, household expenditure, schooling and asset accrual. Johnson and Copestake (2002) undertook a study and it is regarded as a rare example of the few impact assessment studies that verify impacts and demonstrate the reasons for their occurrence. The activities of FINCA, an international microfinance NGO based in Malawi was the object of a concerted study by a group of international researchers.

The study evaluated the geographical, economic and social influence of the intervention. It also highlighted contextual influences; variations in impact between households; and impact enhancement. Basically , the study evaluated three groups of continuing clients, departed clients and a control group. The major findings of the study are presented below. Also reviewed are the works of Johnson and Copestake not just as an example of a comprehensive impact assessment, but also for the treasured information it provides and its possible significance to this research work.

At the point of the baseline survey, 48% of service users were below the poverty line. This is distinctive of target community that most microfinance institutions reaches: people huddled around the poverty line (Hulme and Mosley, 1996). Household income of families with access to credit is significantly higher than for comparable households without access to credit (Remenyi, Joe and Quinones, Benjamin(2000**)**. A 12.9 per cent yearly average rise in income from borrowers in Indonesia was experienced while just 3 per cent increase was recorded from non-borrowers (control group). Remenyi clarifies that, a 29.3 per cent annual average rise in income was documented in Bangladesh from borrowers with only 22 percent yearly average increase in income from non-borrowers. Sri-Lanka showed a 15.6 increase in income from borrowers and 9 per cent rise from non-borrowers. For India, 46 per cent yearly average increase in income was observed among borrowers with 24 per cent rise documented from non-borrowers. The impacts were higher for those just under the poverty line while income enhancement was minimal among the destitute community. Unavailability of capital to commence or keep existing businesses running flowing from unemployment, depressing poverty, low household and business incomes as well as the incapacity to save (Otero, 1999; Parrot and Roomi, 2008; May, 2009; Nagarajan and Porter, 2005) led them to approach micro-finance institutions for credit (Kuzilwa, 2005; Ibru, 2009). This is due to. Though savings are needed to safeguard income, serve as a buffer for the acquisition of loans and provide the opportunity for re-investment in the business (Akanji, 2006), women entrepreneurs, especially those in developing areas, are bereft of the capacity to save (Arene and Mkpado, 2007; Akanji, 2006),.

Microfinance institutions endeavour to assess the impact of microfinance as reported by their influence on clients, their families, businesses and their surrounding communities. Basically, while traditional financial institutions work solely towards finance motive (profit), MFIs focus on both the financial aspect as well as the social (wellbeing).

Microfinance institutions have gradually worked to assimilate themselves into the traditional financial system to the extent that measuring financial returns is now as simple as it can be. Much of the financial terms now used by MFIs are no different from the traditional financial sector. Well-known standard terms such as portfolio risk, return on capital and the like are now the financial terms dangling the corridors of MFIs. However, assessment of social return is hardly straightforward. Practically, it is now very difficult to identify the clear impacts of microfinance intervention on the social sphere, let alone measure their impact. Impact appraisals no doubt, demand the acceptance of research methodologies gifted with separating exact effects from a complex maze of underlying and intervening factors and high volume of indiscriminate environmental clatter, in addition to connecting precise units of measurement to physical and vague impacts that either way, might impart themselves to exact measurement or definition. The complexities inborn in appraising social impacts are so great that several microfinances renege from trying to measure social impact; however, for policymakers and donor institutions, it is core part of their mandate to go all out and assess them. Be that as it may, it is vital for microfinance institutions and other key players to wield some expertise of social impact as data on financial performance of an institution alone hardly provide a total picture of the situation on the ground, so to say.

There are copious information available in scholarly publications on the social impacts of microfinance interventions. Much of these reviews appraise microfinance activities in

Bangladesh. The conclusion of McKernan (1996) is that microfinance programmes definitely exercise a huge affirmative impact on self-employment gains, while to Khandker and Pitt (1998), there is a major impact on the livelihood of the poor especially if women are given prominence, credit-wise. Significantly, out of seven other key studies in Bangladesh carried out by Gupta and Goetz (1996); Hashemi et al. (1996); Schuler and Hashemi (1994); Hashemi and Riley (1996); Steel et al. (2001) and Schuler et al. (1997), with a clear spotlight on female empowerment, six out of the seven concluded that microfinance interventions exercised a major impact on several facets of female empowerment, as for instance, intra-household decision-making or contraceptive use.

However, the sole dissenter, Goetz and Gupta found that large fraction of the women's loans were monopolized by male relatives, hence restricting the women's capacity to exert significant authority over their investment activities. An interesting position emerged out of a research by Dun (2001) who found that "programme clients enterprises performed better than non-client enterprises in teams of profit, fixed assets, and employment." Lastly, the works of Anderson et al. (2002) who appraised 147 microfinance institutions discovered that microfinance intervention shored up environmental consciousness and also, influenced a sense of common good among members.

There is a lot to be gleaned from other published impact studies. In a study in Bangladesh that overly appraised community-level impacts of microfinance interventions, Khanker et al. (1998) found that programme involvement has constructive impacts on employment, production and household earnings, especially in the rural non-farm segment. Moreover, the expansion in self-employment was realized at the cost of formal-sector employment, implying a clear rise in rural incomes. The works of Parsons and Woller (2002) brought to the fore, the revelation that a microfinance intervention in Portoviejo in Ecuador brought in $480,000 per annum in direct and stimulated economic gains to the local economy. Basically, several other impact works touched on the sacrifices that required to be undertaken during the performance of microfinance impact appraisals. The defining studies of Mosely and Hulme (1998) involving a study of 13 microfinance institutions in seven countries (India, Bangladesh, Bolivia, Indonesia, Sri Lanka, Kenya and Malawi) is noteworthy indeed. They constructed an "impact frontier" to reflect the inverse link between outreach (depth of poverty reached) and impact. On the other hand, Wydich (1999b) constructed a theoretical model to investigate the economic tradeoff between future proceeds to schooling and the present return to child labour in Guatemalan household enterprises. He found that in certain areas, microcredit raised the odds that children will attend school. Nonetheless, during certain situations of ethical danger, the outlay of schooling may outstrip the gains of child labour. For Kevane and Wydick (2001), they found that directing microfinance credit to disadvantaged women seemed to indicate a trade-off between economic growth in favour of poverty alleviation and child wellbeing. It emerged also that particular women entrepreneurs generated increasingly fewer job opportunities than their male counterparts.

From the foregoing, it is clear that apart from just one study noted above , all others proved the positive impact of microfinance interventions on the livelihood of the rural poor. However, there are other impact appraisal studies carried elsewhere that failed to tow the line above. For instance, Coleman (1999), found in his appraisal of microfinances in Thailand that there was a "naïve" approximation of impact failing to run for self-selection and irrational programme placement significantly misjudge programme impacts. He oversimplified this finding by connecting them to other impact appraisal programmes and holding out that the majority of impact researches overlooked the question of self-selection and endogenous programme placement thereby contributing to methodical exaggeration of the overall impact.

Some key critics have probed how greatly microfinance activities benefit females (Goetz, Sen and Gupta, 1996). Some posit that micro-finance programmes distort the attention of women from other more potent approaches for empowerment (Ebdon, 1995), and the consideration and the resources of donors from alternative, and potentially more successful means of reducing poverty (Rogaly, 1996).

There is enough evidence to support the view that families that involve themselves in microfinance activities enjoy a raised household earning (Haley and Murdoch 2002). Moreover, Walter and Simanowitz (2002); Khandker (1998); Haley and Murdoch (2002); Wright (2000) hold that they also gain from consumption smoothing and the wherewithal to prolong advantages for a while. Microfinance does not only impact on just household income but basically affects the nourishment and wellbeing of the poor, especially for children (Wright, 2000). A lot of microfinance institutions directly get involved in dieting and physical condition programmes through offering education on diseases such as HIV/AIDS Awareness and seminars on nutrition and personal and community hygiene. In a way, microfinance has a positive impact on wellbeing and general nutrition because greater earnings via involvement in microfinance programmes will always end up in superior general wellbeing and access to health care (Simanowitz et al, 2002).

In places where microfinances have a clear presence, nutritional statistics also appear to get better. Morshed and Hashemi cite a study undertaken by the World Bank in partnership with the Bangladesh Institute of Development Studies, which proved that the

Grameen Bank not only cut poverty and enhanced the wellbeing of participating households, but also boosted the household's ability to uphold their gains over time. This was complemented by a high caloric consumption and enhanced nutritional standing of children in households of Grameen Bank participants (Hashemi et al, 2000).

Microfinance has helped many parents to send their children to school and also, to keep them there. This is because, as Murdoch et al, (2002) puts it, school attendance is sometimes compulsory to be eligible to take part in the microfinance programmes. It is widely supported by several studies that when women are greatly empowered and given control over the lives of their kids, living conditions always improve. This is because, women definitely use household earnings to improve their living standards and that of their children (Espinal and Grasmuck, 2000).

A case study of Sinapi Aba Trust, a microfinance institution in Ghana is noteworthy. The research sought to find out the impact of microfinance on women empowerment. The conclusion was that it was and that it really empowered women to be self-sufficient in their economic ventures as well. The increment in the working capital of women greatly empowered them indeed. Cheston and Kuhn, (2002) showed that in virtually all cases, the increased capital impacted positively on their businesses and general livelihood. However, this was only possible if the chance for entrepreneurial intervention, based on openings for new economic activity or expansion of existing ones served as a linkage between microfinance dynamics and women's business performances.

There is evidence per the works of Brana (2008) that microfinance dynamics generate opportunity for business owners to create income. The breakthrough regarding business opportunities and the resolve to utilize such opening leads to a hunt for external financial support. Indeed, Shane (2003) argues that the acquisition of such support additionally generates further opening for entrepreneurial income-generating ventures. On the whole, it is held by Shane, 2003, Koontz & Weihrich, (2006) that appropriate execution of the resources could transform to positive business results. In large part, microfinance is widely accepted as a positive driver to the economic wellbeing in the areas of health, increased income, education and training and empowerment. Yet, the question remains whether it can really lift families out of poverty. The belief is that it can improve the living conditions of poor families so much so that ultimately, they can exit the poverty abyss.

2.7 CHARACTERISTICS OF MICROFINANCE

The key features of the microfinance activity is offering micro-loans to the business entities. For Boros, R and Murray, U (2002), microfinance has many features and they include:

- Very little savings and loan needs.
- Short- terms loan transactions of up to a year.
- Regular deposit requirement to retire loans.
- Installment payments of both principal and interest.
- Loans have high interest rates comparable to commercial bank rates but well below that of loan-shark rates.
- They are easily accessible to the client and better-positioned to assess the latter's credit-worthiness.
- Easy application processes.
- Little or no delay in processing loans and other transactions.
- Credit-worthy clients enjoy more and higher loans with time.

- Interest on loans gets small with larger loans granted overtime.
- Unlike traditional banking practices, no collateral is demanded

2.8 MICROCREDIT AS DEVELOPMENT TOOL

Micro-credit has over the years become a vital instrument for promoting development, particularly in poor countries. Much of the lending is offered to women-beneficiaries as a special way of empowering them to be economically self-sufficient. Micro-credit has come such a long way since its inception in Bangladesh that it is now deemed a significant poverty mitigation instrument (*nobleprize.org*). Thente and Sofia (2003) hold that such interventions in favour of women have no doubt boosted their overall livelihood.

Harper (2003) explains that in poor countries, there is the wrong belief that target groups in rural communities are unable to identify themselves, are way too destitute to save and basically require cheap loans for key economic ventures. As a result of this, microfinance institutions regard this target community along the above assessment lines.

2.9 MICROFINANCE INSTITUTIONS

A microfinance institution is one that organizes small credit and financial services to the underprivileged community and small business owners. The “Microfinance gateway” aptly defines a microfinance institution as one “that offers financial services to low-income people.” There are several micro-finance organizers. Basically, when we discuss these, financial NGOs readily come to mind. These financial NGOs offer micro-credit and microfinance services too although in certain instances, these financial NGOs are not permitted to encapsulate saving deposits from general public. Several NGOs undertake other financial services together with microfinance just like some commercial banks also provide a measure of microfinance esides their traditional financial mandate. Rehman, (2007) posits that due to such microfinance provisions that are components of the whole activities of these commercial banks, we can effectively call them microfinance institutions. Generally, there are several other MFI´s that can be romped into the field of microfinance. These institutions are the community-based financial intermediaries such as cooperative housing societies and credit unions as well as some others that are controlled by the local entrepreneur and municipalities. This type of institution varies from individual countries (Rehman, 2007).

The organizational form varies but may be a credit union, downscaled commercial bank, financial NGOs, or credit cooperative. The formality also varies – from those formal institutions subject to both general laws and to specific banking regulation and supervision (development banks, savings and postal banks, and non-bank financial intermediaries) through the semi formal providers who are required to abide by general and commercial laws but not regulated by under bank regulation and supervision (financial NGOs, credit unions and cooperative) to informal providers are non-registered groups such as rotating savings and credit association (ROSCAs) and self-help groups. Ownership may also vary from those which are government owned, such as the rural credit cooperatives in China; member-owned, such as the credit unions in West Africa, socially minded shareholders, such as many transformed NGOs in Latin America; and profit-maximizing shareholders, such as the micro finance banks in Eastern Europe (ibid).

2.10 ORGANIZATION OF MICROFINANCE INSTITUTIONS

2.10.1 Cooperative Financial Institution

This is a semiformal financial institution constituted by savings and loan cooperatives, credit unions as well as other financial cooperatives. These institutions offer savings and loan services to their constituents. Constrained by their own regulations but supervised by the Finance Ministry, they are run by members, either elected or voluntary workers, who also constitute the key customers. As well, they do not have external shareholders and work within the set principles of a cooperative organization. (Schmidt, 1997) throws more light on Individual financial cooperatives in a country. He says that they are often administered by a league that synchronizes activities of these institutions and acts as a bridge between external donors and the financial cooperative system. These institutions usually augment capital mainly through savings. It is often difficult for them to provide loans but they often do so from savings of individual members with very easy conditions for loan beneficiaries.

2.10.2 Group Lending

Group lending is usually the method used by microfinance institutions that do not demand collateral security from loan beneficiaries. According to (Natarajan, 2004), group lending often go with almost similar interest rates charged by commercial banks but less than that charged by individual money lenders. Many banks such as The Grameen bank are known to favour this type of lending as default rate is very low due to the fact that each and every member is held responsible to the collective debt (Stiglitz, 1990). Usually, members of a group are bound together by strong social ties and therefore feel united in purpose. To clarify issues, individual members do not benefit directly from loans but to individuals belonging in a group with the whole group serving as a *social collateral*. This helps overcome challenges such as adverse selection and high costs of monitoring loans to the members.

2.10.3 Individual Lending

This is a method of offering loans and advances to individuals set against a collateral security. Besley and Coate (1995) posit that repayment default is sometimes very high when credit is offered to groups, notwithstanding the great advantages to them. This is further highlighted by Montgomery (1996) who asserts that this mode of lending skirts the social costs of repayment pressure that is piled on members of a group. Stiglitz (1990) gives further insights to us on the risks associated to group lending. He says that individual members in a group often bear high risks since they are not only held accountable for their own loans but to that of whole group members. To Navajas et al. (2000) and Zeitingner (1996), it is very important to routinely pay visits to loan beneficiaries to make sure the loan is used for the purpose for which it was acquired. The importance of such monitoring is priceless although it adds to the overall costs to the microfinance company.

2.10.4 Self-Help Groups (SHG)

Self-help groups are usually the preserve of women in rural areas engaged in small income-generating ventures (Ajai, 2005). It is widely believed that such women are collectively empowered when they are offered such credit as they get the opportunity to bolster their individual lives. There are many ways that SHGs help their individual members. As Ajai (2005) explains further, they are usually unregistered group of up to 20 members and through their collective power, are able to not only mobilize funds for their members to engage in hairdressing, bee-keeping, tailoring, weaving and the like but also, get awareness training in finance, health hazards, environmental issues among others for the benefit of all. On how they carry out their collective business, they usually meet on specific dates to contribute a constant and equal sum as savings which are then given out to individual members over a period of time and specific interest rate (Bowman, 1995).

2.10.5 Village Banking

Village banking can be defined in various ways. One such definitions is that it is a method of facilitating regular access to lending to individual members to support the daily activities of their small businesses. In this sense, beneficiaries are given the necessary boost in shoring up their enterprises. Significantly and in time, they find themselves with the financial muscle to go in for larger funds thereby sustaining both their businesses and the banks with which they are aligned to. Village banking has been present for years but has gathered much momentum since the turn of the 1990s and witnessed much overhaul in its structure (Nelson et al; 1996).

2.11 FACTORS THAT DETERMINE ACCESS TO MICROFINANCE

Available literature shows that access to micro credit is influenced by several factors. These include; income, education, size of business, type of business, membership of economic association, family size, etc. Ayamga *et al* (2006) observed that, family size positively influence the decision to participate in micro credit schemes. Women in groups are likely to have access to micro credit than those who do not belong to any group Armendariz and Morduch (2005) and Kah *et al* (2005). There are a lot of empirical evidence that in developing and less developing countries, low-income households are rarely successful in securing credit from the traditional financial sector Del-Rio and Young, (2005); Thaicharoen *et al*,(2004); Benito and Mumtaz, (2006); Crook and Hochguertel, (2005); Magri, (2002); Arvai and Toth, (2001) and Crook, (2001).

Akram *et al (*2008); Benito and Mumtaz (2006); Thaicharoen *et al* (2004); and Crook (2001) hold the view that age is a significant micro credit constraint. Also, Ayamga *et al (*2006); Thaicharoen *et al (*2004); and Arvai and Toth (2001) in separate studies observed that, formal education significantly influence participation in micro credit schemes. The perception of income class has positive relationship with probability of access to micro-credit. (Del-Rio and Young, 2005; Benito and Mumtaz, 2006; and Magri 2002).

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter introduces a detailed plan of methods that revolve around the collection, organization, analyzing and then interpreting the data obtained with the aim of achieving the set-objectives of the study. In line with this, much of this chapter would take into recognition, the sampling procedure used in the research, the key target population, sample selection and sample size. This chapter shall also consider the sampling techniques, data collection techniques, the research design, and data analysis techniques.

3.1 THE STUDY AREA – KUMASI METROPOLIS

Kumasi metro is one of the twenty-seven (27) districts of the Ashanti Region in Ghana. It corresponds to the city of Kumasi, the district capital Kumasi is positioned in the middle forest zone and it is about 270km north of Accra, the nation's capital city.

A lot of economic activities are synonymous with the city of Kumasi but we can appropriately classify them under agriculture, industry and commerce, and the services sector. It is also constituted by the formal and the informal sectors. The formal sector is depicted by businesses with commercial or corporate ownership, large-scale business activities, capital-intensive production enterprises and the use of sophisticate technology and extensive access to infrastructure and land. The informal sector on the other hand, is made up of Small and Medium scale Enterprises (SMEs) which are into retailing and distribution. Available figures show that the economy of the metropolis fall under trade/service/commerce which account for around 71% of the total while manufacturing/industry take up 24%, and the primary production sector follows up with the rest (5%).

Although the total employment level in Kumasi is about 86%, it is on record that around 60% of Kumasi residents still grapple with low standard of living as a result of low incomes. Significantly, Kumasi is home to the largest traditional indoor market in West Africa. Known as the Kumasi Central Market, it has over 10000 stores and stalls, with additional twenty-eight (28) satellite markets. Heavily conspicuous in the city are countless financial institutions including the Bank of Ghana, insurance companies, commercial and rural banks, as well as microfinance institutions.

3.2 THE STUDY POPULATION

Every adult in the Kumasi metropolis was a target. The metropolis is chosen as a result of booming commercial activities coupled with proliferation of microfinance institutions making it a very significant business Centre not only in Ghana but in the whole of West Africa.

3.3 THE SAMPLE

A sample size of two hundred and twenty (220) respondents was chosen for the study. This size was chosen taking into consideration time, financial and other logistics constraints.

3.4 SAMPLING TECHNIQUES

Simple random sampling in which every adult individual in the Kumasi metropolis had equal chance of being selected was used. The use of this sampling technique has advantages such removal of researcher bias, and selection based on chance.

3.5 RESEARCH INSTRUMENT

Questionnaire is the research instrument that was used for data collection. The questionnaire was designed to accomplish the research objectives.

3.6 DATA ANALYSIS TECHNIQUES

Binary logistic regression technique was used to analyze the data because the dependent variable was a binary variable for which reason binary data on it were collected. The econometric model adopted for the study was modeled as:

$$logit\ (P_i) = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \ldots + \beta_n X_{ni}$$

Where Pi=is the probability of the presence of characteristics of interest. The logit transformation is defined as logged odds.

$$P_i = \frac{pi}{1-pi}$$

Therefore, the logits (natural logs of odds) of the unknown binomial probabilities are modeled as linear function of the Xi as;

$$logit\ (P) = Ln\ (\frac{pi}{1-pi}) - \beta_0 + \sum_{j=i}^{n} \beta j\ Xji,$$

Thus, the logit (Pi) is assumed to be a random variable which predicts the likelihood of the preference in microfinance.

$$\text{Likelihood adoption} = P_i = (\frac{1}{1+e-logit\ (Pi)}) = \frac{eLogit\ (Pi)}{1 + eLogit(Pi)}$$

The functional form of the regression model estimating the factors that affect the preference of microfinance was presented as follows;

Y= (X_1, X_2, X_3, X_4, X_5) where:

Y= Financial Institution Preference = D=1 if respondent prefers microfinance institution; otherwise D=0

X_1= EDUC=Educational Level of Client. D=1 if respondent has no tertiary education; otherwise D=0

X_2= GENDER = Gender of respondent. D=1 if female; otherwise D=0

X_3= MSTATUS = Marital Status. D=1 if respondent is married; otherwise D=0

X_4= INCOME= Income bracket of respondent. D=if respondent earns below GH₵2000 a year; otherwise D=0

X_5= AGE= Age of respondent. D= 1 if respondent is within 51-60 age bracket; Otherwise D=0

CHAPTER FOUR

PRESENTATION OF DATA AND ANALYSIS

4.0 INTRODUCTION

This chapter presents and analyses data gathered for the study. The chapter begins with cross tabulation of key variables in the model stated in Chapter Three. The chapter ends with the presentation and analysis of results from the binary logistic regression model stated in Chapter Three.

4.1 CROSS TABULATION OF GENDER AND FINANCIAL INSTITUTION PREFERENCE

Table 1 presents the cross tabulation between gender and financial institution preference. 109 males and 107 females have been randomly sampled for the study. Out of the 109 males, 80 representing approximately 73% indicate their preference for a commercial bank whilst 29 representing 27% prefer a microfinance institution. Out of the 107 females, 82 representing approximately 77% indicate their preference for a commercial bank whilst 25 representing 23% prefer a microfinance institution. It is clear from Table 1 that most of the respondents prefer a commercial bank to a microfinance institution.

Table 1: Cross Tabulation of Gender and Financial Institution Preference

	Financial Institution Preference		
	Commercial Bank	Microfinance Institution	Total
Male	80	29	109
Female	82	25	107
Total	162	54	216

Source: Author’s construction, 2015

4.2 CROSS TABULATION OF INCOME AND FINANCIAL INSTITUTION PREFERENCE

Cross tabulation between income and financial institution preference is presented in Table 2. Of the 219 respondents 192 presenting approximately 88% fall within the high income bracket whilst 27 representing 12% fall within the low income bracket (annual income below GH¢2,000). Ironically, out of the 27 low-income earners 25 indicate their preference for a commercial bank. This is strange because it is common knowledge that microfinance serves as refuge for the poor and financially excluded. It could be rampant that collapse of microfinance institutions in Ghana has killed the interest of the poor and financially excluded in the microfinance concept.

Table 2: Cross Tabulation of Income and Financial Institution Preference

	Financial Institution Preference		
	Commercial Bank	Microfinance Institution	Total
High Income	138	54	192
Low Income	25	2	27
Total	163	56	219

Source: Author's construction, 2015

4.3 RESULTS OF BINARY LOGISTIC REGRESSION ANALYSIS

The results of the logistic regression are presented in Table 3. The predictive power of the model measured by Cox and Snell and Nagelkerke R^2 lies between 15% and 22% which is reasonable. Education (EDUC) has a negative statistically significant relationship with financial institution preference. The interpretation is that respondents with below tertiary education are less likely to prefer a microfinance institution to a commercial bank.

Marital status (MSTATUS) shows a positive, statistically significant relationship with financial institution preference, meaning married respondents are more likely to prefer a microfinance institution to a commercial bank. The reason is that married have a lot of financial obligations such as school fees and hospital bills of children for which reason they require higher liquidity at all times. Since microfinance institutions provide quicker liquidity on short notice under flexible terms and conditions, it is understandable that married couples would prefer a microfinance institution to commercial bank.

Gender (GENDER) has a positive, statistically insignificant relationship with microfinance, implying females are not better than males in terms of microfinance preference. In other words, males are rather more likely to prefer a microfinance institution to a commercial bank. The microfinance literature argues that microfinance targets women because they are mostly poor and vulnerable. Ironically, evidence from our data points to the fact that women in our sample do not prefer microfinance institutions. Why? Again the reason could be the abysmal performance of most microfinance institutions resulting in their collapse causing huge and devastating losses to their subscribers. It could be that most of these women were the initial target of the microfinance institutions but as a result of series of disappointments they have become disenchanted about the concept of microfinance.

Microfinance has been described as a tool for providing credit and financial services to the productive poor who lack access to formal intermediation and are engaged in small and micro enterprises (Kyereboah-Coleman, 2007). Consequently, the expectation of the study has been that low-income earners should prefer microfinance institution to a commercial bank. However, evidence in Table 3 suggests the opposite. Income (INCOME) has a positive but statistically insignificant relationship with financial institution preference, meaning low-income earners are not likely to prefer a microfinance institution to a commercial bank. By extrapolation low-income earners are rather more likely to transact banking business with a commercial bank than a microfinance institution. The reason could be lack of trust in the microfinance institutions that has been occasioned by years of disappointments suffered by unsuspecting microfinance subscribers at the hands of some defunct microfinance institutions.

Table 3: Results of Logistic Regression: Dependent Variable-Financial Institution Preference

Variable	Coefficient	Wald	p-value
EDUC	-1.191	8.906	.003***
MSTATUS	.763	4.189	.041**
GENDER	.128	.131	.717
INCOME	1.310	2.747	.097
AGE	20.476	.000	.998
CONSTANT	-22.254	.000	.998
N=216 Cox & Snell R^2=.15; Nagelkerke R^2=.22			

***, **, * indicate 1%, 5% and 10% significance levels. Source: Author's construction, 2015

From Table 3 it can be observed that age has a positive, statistically insignificant relationship with financial institution preference, meaning the older a person becomes the less likely that they will choose to transact business with a microfinance institution. The reason is inextricably tied to lack of confidence in the microfinance concept due to the series of unpleasant developments in the microfinance sector.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter gives us the summary of the research findings, draws conclusion and proposes recommendations based on the findings of the study. Summary of findings begin the chapter followed by conclusion. Recommendations section ends the chapter.

5.1 SUMMARY OF FINDINGS

The study has sought to ascertain financial institution preference between adult males and females and their income levels using a sample of 219 respondents randomly chosen for analysis. Specifically the interest of the study has been to find out whether low-income earners prefer a microfinance institution to a commercial bank. Evidence from the logistic regression points to the fact that low income earners are more likely to choose a commercial bank over a microfinance institution. Also, evidence exists that older people are less likely to choose a microfinance institution as their financial institution.

The study also sought to find out between male and female gender one that is more likely to prefer a microfinance institution to a commercial bank. Evidence shows that out of the 109 males, 80 representing approximately 73% indicate their preference for a commercial bank whilst 29 representing 27% prefer a microfinance institution. Out of the 107 females, 82 representing approximately 77% indicate their preference for a commercial bank whilst 25 representing 23% prefer a microfinance institution. In all there is evidence that most of the respondents prefer a commercial bank to a microfinance institution.

Evidence from the binary logistic regression analysis indicates that contrary to expectation that male adults are more likely to prefer a microfinance institution to a commercial bank. Evidence further indicates that whereas adults with no tertiary education prefer a commercial bank, adults who are married are more likely to choose a microfinance institution over a commercial bank.

5.2 CONCLUSION

The study has investigated income and gender-financial institution preference connection with data randomly gathered from 219 adults in the Kumasi metropolis using a questionnaire as a research instrument. Cross tabulation and binary logistic regression analysis have been used for analysis. The study has established that males are more likely to prefer a microfinance institution as their financial institution and that low-income earners are more likely to shun a microfinance institution. On the basis of these findings the study concludes that between adult males and adult females the former prefer the microfinance banking model more than the latter.

5.3 RECOMMENDATIONS

The finding that between male adults and female adults, the former prefer a microfinance institution more than a commercial bank suggests that the hackneyed belief that microfinance institutions should target women because they are poor and financially excluded should be given a second look in Ghana. Evidence from the data suggests that it is better and financially prudent for microfinance institutions that want to widen their customer base to target their marketing campaigns at adult male income-earning group.

The finding that low-income earners prefer a commercial bank to a microfinance institution presupposes that it is advisable for microfinance marketers to revise their notes on their targets. Microfinance institutions in the Kumasi metropolis should not target the low-income group alone. They are likely to make more sales if they should map out strategies to reach out to the wealthy adult individuals.

Evidence that most of the respondents used in the study prefer a commercial bank to a microfinance institution makes a case for the both policy makers and microfinance practitioners to take a second look at the microfinance concept in the Kumasi metropolis. It appears there is lack of trust in the whole microfinance industry in the metropolis. Rigorous enforcement of the microfinance regulations, making sure that all microfinance institutions operate according to regulations will be a step in the right direction. Again, introduction of deposit insurance which provides some assurance to microfinance depositors that in event of collapse of their institutions insurance companies will come to their rescue will also be a step in the right direction that will encourage adults with funds to save with microfinance institutions.

Another way of rebuilding the lost confidence of people in the microfinance concept is to offer regular capacity-building programmes in areas such as liquidity risk management for the microfinance institutions especially the new entrants. Doing this will ultimately lead to the reduction in the rampant demise of microfinance institutions in the system.

REFERENCES

Abafita, J. (2003). Microfinance and Loan Repayment Performance: A Case Study of the Oromia Credit and Savings Share Company (OCSSCO) in Kuyu. MA Dissertation. Faculty of Business and Economics, Addis Ababa University, Addis Ababa.

Abrami, P.C., Cholmsky, P. & Gordon, R. (2001). *Statistical Analysis for the Social Science: An Interactive Approach*. Boston: Allyn and Bacon.

Addison, E.K.Y. (2004). The Macroeconomic Impact of Remittances in Ghana. Accra: Bank of Ghana.

Adjei, J.K. & Arun, T. (2009). Microfinance Programmes and the Poor: Whom are they Reaching? Evidence from Ghana. Brook World Poverty Institute Working Paper 72, University of Manchester.

Adlakha, A. (1996). International Brief. Population Trends: Ghana. US Department of Commerce. Economics and Statistics Administration. Bureau of the Census.

Adverse Selection Model. *The Economic Journal*, 110, 632-643.

Aghion, B. (1999). On the Design of Credit Agreement with Peer Monitoring, *Journal of Development Economics*, 60, 79-104.

Agrawala, S. & Carraro, M. (2010). Assessing the role of microfinance in fostering adaptation to climate change. *OECD Environmental Working Paper No. 15*, 2010. OECD Publishing.

Ahlin, C.R. & Townsend, R. M. (2003). Using Repayment Data to Test Across Models of Joint Liability Lending. Working Paper.

Ahlin, C.R. & Townsend, R.M. (2007). Using Repayment Data to Test across Models of Joint Liability Lending, *Economic Journal*, 117, F11-F51.

Al-Azzam, M. & Sarangi, S. (2007). Payment Performance in Group Lending: Evidence from Jordan, American University in Dubai, SBA Working Paper 1.

Al-Bagdadi, H. (2002). Microfinance Associations: The Case of Ghana Microfinance Institutions Network (GHAMFIN). Eschborn: GTZ.

Alindogan, A.L. (2002). Commercialisation of Microfinance. *ADB Finance for the Poor,* 3(3).

Alvesson, M. (2003). Methodology for close up studies-Struggling with closeness and closure. *Higher Educational*, 46, 167-193.

Andah, D.O. (2005). Regulation, Supervision, and Access to Microfinance: A Case of Ghana. Essays on Regulation and Supervision No. 10. Washington D.C: CGAP.

Anderson, G.L. & Herr, K. (1999). The new paradigm wars: Is there room for rigorous practitioner knowledge in schools and universities? *Educational Researcher*, 28, 12-21.

Armendariz de Aghion, B. & Gollier, C. (2000). Peer Group Formation in an

Armendariz de Aghion, B. & Morduch, J. (2005). *The Economics of Microfinance.* Massachusetts: Massachusetts Institute of Technology.

Arun, T., Imai, K. & Sinha, F. (2006). Does microfinance reduce poverty in India? Propensity score matching based on a national-level household data. Development Economics and Public Policy Working Paper Series No. 17, IDPM, University of Manchester.

Aryeetey, E. (1994). Financial Integration and Development in Sub-Saharan African. ODI. Working Paper 78. London: ODI.

Ashe, J. & Parrott, L. (2001) Impact Evaluation of PACT‘s Women‘s Empowerment Program in Nepal: A Savings and Literacy Led Alternative to Financial Institution Building. Cambridge, Mass.: Brandeis University.

Ashley, C. (1986). The Credit Delivery Structure. Masters Dissertation, Institute of Social Studies, The Hague, Netherlands.

Ashong, K. & Smith, D.R. (2001). Livelihoods of the Poor in Ghana: A Contextual Review of Ghana-wide Definitions and Trends of Poverty and the Poor with Those of Peri-Urban Kumasi. Chatham: Natural Resource Institute.

Ashraf, N., Karlan, D. & Yin, W. (2009). Female Empowerment: Impact of a Commitment Savings Product in the Philippines. *World Development*, 38(3), 333-344.

Atafori, A. K. (2006). $50m boost for average Ghanaian. *Statesman* Retrieved on 26/02/08 at http://www.thestatesmanonline.com/pages/news_detail.php?section=1&newsid=385

Azevedo, J.P. (2007). Microfinance and Poor Entrepreneurs. In S. C. Parker (Eds.), *The Life cycle of Entrepreneurial Ventures*, (pp 301-334). New York: Springer.

Balkenhol, B. (2007). The Impact of Microfinance on Employment: what do we know? Social Finance Program, Geneva: ILO.

Bamberger, M. (2000). Opportunities and Challenges for Integrating Quantitative and Qualitative Research. In M. Bamberger (Ed.) *Integrating Quantitative and Qualitative Research in Development Project.* Washington D.C: World Bank.

Bank of Ghana, (2008). Annual Report and Accounts 2008. Retrieved on 21/12/2007 from http://www.bog.gov.gh/privatecontent/public/File/Bank%20of%20Ghana%20Annual%20Report%202008.pdf

Bank of Ghana. (2007). *A Note of Microfinance in Ghana*. WP/BOG-2007/01. Bank of Ghana: Accra.

Barnes, C. & Keogh, E. (1999). An Assessment of the Impact of Zambuko‘s Microenterprise Program in Zimbabwe: Baseline Findings. AIMS Paper. Washington DC: USAID MSI.

Barnes, C., Gaile, G. & Kibombo, R. (2001). The impact of three microfinance programs in Uganda. AIMS paper, Washington DC: USAID MSI.

Barnes, C., Morris, G. & Gaile, G. (1998). An assessment of the Impact of Microfinance service in Uganda: Baseline Findings. Vols. 1 and 2. AIMS paper, Washington DC: Management Systems International.

Bateman, M. & Chang, H. (2009). The Microfinance Illusion. Retrieved on 21st December 2009 at http://www.econ.cam.ac.uk/faculty/chang/pubs/Microfinance.pdf

Bebbington, A. (1999). Capitals and Capabilities: A Framework for Analysing Peasant Viability, Rural Livelihoods and Poverty. *World Development*, 27(12), 2021-2044.

Bechhofer, F. and Patterson, L. (2000). *Principles of Research Design in the Social Science*. London: Routledge.

Bell, J. (1999). *Doing Your Research Project* (3rd ed.). Buckingham: Open University.

Besim, M. (2003). Measuring the Size of Underground Economy in a Small Island: The Case of Turkish Republic of Northern Cyprus. PhD Dissertation. International Development Department, University of Birmingham, Birmingham.

Besley, T. & Coate, S. (1995). Group lending, repayment incentives and social collateral. *Journal of Development Economics,* 46(1), 1-18.

Bevir, M. & Rhodes, R.A.W. (2004). Interpreting British Governance. *British Journal of Politics and International Relations*, 6, 130-136.

Borooah, V. K. (2002). *Logit and Probit: Ordered and Multinonial Models*. London: Sage.

Brannick, T & Coghlan, D. (2007). In Defence of Being _Native': The Case for Insider Academic Research. *Organisational Research Methods*. 10(59), 59-74.

Bratton, M. (1986). Financing Smallholder Production: A Comparison of Individual and Group Credit Schemes in Zimbabwe. *Public Administration and Development*, 6, 115-132.

Brown, D. R. et al. (2006). Livelihood Strategies in the Rural Kenyan Highlands. *AfJARE*, 1(1) Bryman, A. & Cramer, D. (2001). *Quantitative data analysis with SPSS Release 10 for Windows: a guide for social scientists*. Oxford: Routledge.

Buchenau, J. (2003). Innovative Products and Adaptations for Rural Finance. Paper prepared for Paving the Way Forward for Rural Finance: An International Conference on Best Practices held on June 2-4 2003.

Buckley, G. (1997). Microfinance in Africa: Is it either the Problem or the Solution? *World Development*, 25(7), 1081-1093.

Burkket, I. (2007). Globalised Microfinance Economic Empowerment or Just Debt? In L. Dominelli (Ed.), *Revitalising Communities in a Globalising World* (pp. 155-160). Hampshire: Ashgate Publishing.

Buss, T.F. (1999). Microenterprise in International Perspective: An overview of the issues. *Journal of Economic Development*, 1(1), 1-28.

Buyske, G. (2004). Microfinance: Part 1: little but mighty. [electronic version]. *The RMA Journal*.

Canagarajah, S., Newman, C. & Bhattamishra, R**. (**2001). Non-farm income, gender, and inequality: evidence from rural Ghana and Uganda**.** *Food Policy*, 26(4), 405-420.

Carney, D. (1998). Implementing the Sustainable Rural Livelihoods Approach. In D. Carney (Ed) *Sustainable Rural Livelihoods; what contribution can we make?* Nottingham: Russell Press.

Carter, M. et al. (2004). Rethinking rural finance: a synthesis of the paving the way forward for rural finance conference. University of Wisconsin, Broadening Access and Strengthening Input Market Systems (BASIS).

CGAP (2002). Helping to Improve Donor Effectiveness in Microfinance: Making Sense of Microcredit Interest Rates. Donor Brief No.6. Washington D.C: CGAP.

CGAP (2010). What is Microfinance? Retrieved on 5th January 2010 from http://www.microfinancegateway.org/p/site/m/template.rc/1.26.9183/#Q1

CGAP. (2004). Interest Rates Ceilings in Microfinance: The Story so Far. Occasional Paper No. 9. Washington D.C: CGAP.

Chambers, R. & Conway, G. (1991). Sustainable rural livelihoods: practical concepts for the 21st century. IDS Discussion Paper No. 296. Brighton: IDS.

Chambers, R. (1983). *Rural Development: Putting the Last First*. Essex: Pearson Educational Limited.

Chamlee, E. (2005). Fostering Sustainable Complexity in the Microfinance Industry: Which Way Forward? *Institute of Economic Affairs*. Oxford: Blackwell.

Kyereboah-Coleman, A. (2007) The Impact of Capital Structure on the Performance of Microfinance Institutions, Journal of Risk Finance, 8, pp.56-71

APPENDIX

Kwame Nkrumah University of Science and Technology
KNUST School of Business
Department of Accounting and Finance

QUESTIONNAIRE

This questionnaire has been designed to elicit responses for academic purposes only, therefore, we guarantee that responses given will be given the strictest confidentiality. We encourage you to answer the questions as honestly as possible.

SECTION A: BIODATA

GENDER Male [ ] Female [ ]

AGE: Below 20 [ ] 21-30 [ ] 31-40 [ ] 41-50 [ ] 51-60 [ ]

Marital Status: Married [ ] Single [ ]

Highest Level of Education: Below tertiary level [ ] HND [ ] First degree [ ] Second degree [ ] PhD [ ] Others, please specify…………………………………………………….

INCOME: Annual income Tick ONE as applicable

Below GH 2000 [ ]

GH2000-3000 [ ]

GH3100-4000 [ ]

GH 4100-5000 [ ]

Above GH5000 [ ]

SECTION B: FINANCIAL INSTITUTION PREFERENCE

My most preferred financial institution is …

1. Microfinance institution [ ]
2. Commercial bank [ ]

SECTION C: PREFERENCE FOR MICROFINANCE / CREDIT UNION

Please answer this section if you chose 1 in section B and continued with section E and F

If your most preferred financial institution is a microfinance institution, indicate the extent to which you agree to the following statements by circling the value that shows your degree of agreement .

1 = Strongly disagree 2 = Fairly Disagree 3 = Disagree 4 = Don't Know 5 = Agree 6 = Fairly Agree 7 = Strongly Agree

A. Costs of transacting business with a microfinance / credit Union institution is better than doing business with a commercial/universal bank[1 2 3 4 5 6 7]

B. I prefer saving with a microfinance institution than saving with a commercial/universal bank

   [1 2 3 4 5 6 7]

C. I prefer borrowing from a microfinance institution than borrowing from a commercial/universal bank[1 2 3 4 5 6 7]

D. Microfinance institutions are friendlier than commercial/universal banks[1 2 3 4 5 6 7]

SECTION D: PREFERENCE FOR A COMMERCIAL/UNIVERSAL BANK

Please answer this section if you chose 2 in section B and continue with section E and F.

If your most preferred financial institution is a commercial bank indicate the extent to which you agree to the following statements by circling the appropriate value 1 = Strongly disagree 2 = Fairly Disagree 3 = Disagree 4 = Don't Know 5 = Agree 6 = Fairly Agree 7 = Strongly Agree

A. I prefer saving with a commercial bank because I am less likely to lose my investment

   a. [1 2 3 4 5 6 7]

B. I prefer saving with commercial/universal banks to saving with microfinance institutions because if I save with a commercial banks/universal banks I will have access to my funds at any time

   a. [1 2 3 4 5 6 7]

C. I prefer borrowing from a commercial bank because I am likely to get a larger loan amount

a. [1 2 3 4 5 6 7]

D. I prefer transacting business with a commercial bank because commercial banks have better customer service [1 2 3 4 5 6 7]

E. I prefer commercial banks to microfinance institutions because commercial banks are well regulated[1 2 3 4 5 6 7]

SECTION E: RISK ASSESSMENT

Indicate the extent to which you agree to the following statements by circling the appropriate value 1 = Strongly disagree 2 = Fairly Disagree 3 = Disagree 4 = Don't Know 5 = Agree 6 = Fairly Agree 7 = Strongly Agree

A. Investigate or will investigate the credibility of a financial institution before I do business with it

a. [1 2 3 4 5 6 7]

B. I demand or will demand to see the license of a financial institution before I transact business with it

a. [1 2 3 4 5 6 7]

C. I verify the authenticity of the license of a financial institution from the licensing body before I start doing business with it [1 2 3 4 5 6 7]

D. I completely avoid or will completely avoid a financial institution that promises a very high interest rate on savings [1 2 3 4 5 6 7]

E. I carefully read and understand every document before I append my signature to it

a. [1 2 3 4 5 6 7]

F. I avoid walking alone in dark places at night [1 2 3 4 5 6 7]

G. I drive or will drive carefully on the road with my seatbelt on [1 2 3 4 5 6 7]

H. I inspect or will inspect my vehicle thoroughly before I put it on the road [1 2 3 4 5 6 7]

I. I do or will do routine checks on my body to avoid premature death [1 2 3 4 5 6 7]

SECTION F: LOSS EXPERIENCE

I have lost a treasured asset before due to lack of due diligence or recklessness True [ ] False [ ]