Kwame Nkrumah University of Science and Technology, Kumasi

Institute of Distance Learning, IDL

THE EFFECTS OF MICROFINANCE ON POVERTY REDUCTION IN THE SEFWI WIAWSO DISTRICT

BY

KWAMI HOPE QUAO

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A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCELEARNING (IDL), KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, IN PARTIAL FULFULMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF

COMMONWEALTH EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

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DECLARATION

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

Kwami Hope Quao	…………………	…………………
PG3088209	Signature	Date

Certified by:

Supervisor	…….……………	.……………...…
Mr. G. N. Asamoah	Signature	Date

Certified by:

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Dean, IDL	Signature	Date

DEDICATION

For Rosemond, Patrice and Walter to answer their question: “Dad, what are you writing all night long?”

ABSTRACT

This thesis is aimed at investigating the effect of microfinance on poverty reduction with the objective of identifying the major operating activities of MFIs in the Sefwi Wiawso District and the impact of MF on the economic livelihood of the people of Sefwi Wiawso. Data for the study was gathered from six main towns of the district by distributing questionnaires and through interview. Secondary sources were also consulted to provide sound and suitable basis for the study. The study adopted the descriptive approach in data analysis. The results of the analysis revealed that microfinance has positive impact on the standard of living of the poor people and on their life style as it has not only helped to improve income, but has also empowered the beneficiaries; mostly women who indeed were experiencing greater economic change through MF facilities. Interest rates were high, however due to flexibility and convenience the MFIs offer they are preferred to formal banks. The extent of outreach is encouraging but the depth of it is yet to be achieved. This study recommended reduction in interest rates, collateral be applied to certain level of loans, loan repayment period be extended, skill training for customers and management of MFIs, Susu customers be extended credit and expansion MFI of activities to reach the hardcore poor.

DEFINITION OF ABBREVIATIONS

UNDP	-	United Nations Development Programme
SIF	-	Social Investment Fund
AgSSIP	-	Agricultural Services Subsector Investment Project
SMEs	-	Small and Medium Scale Enterprises
NGOs	-	Non-governmental Organizations
GTZ	-	German Technical Cooperation Agency
IITA	-	International Institute for Tropical Agriculture
RCB	-	Rural and Community Banks
ARB	-	Association of Rural Banks
MFIs	-	Microfinance Institutions
GHAMFIN	-	Ghana Microfinance
ROSCAs	-	Rotating Savings and Credit Associations
SHGs	-	Self-help Groups
MDG	-	Millennium Development Goal
IGVGD	-	Income Generation for Vulnerable Group Development
SPSS	-	Statistical Package for Social Science
UN	-	United Nation

SFD	-	Syngenta Foundation Discussion
MF	-	Microfinance

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 Background of the study

Poverty is a widespread canker worldwide and every government has stepped in to save her citizens by adopting various policies. Poverty, to many authors, is the prime symptom of all diseases and early death of many people; especially in the developing countries where income is generally low, savings are hardly talked of resulting in low investment and employment. In the Sub-Saharan region, Ghana is no exclusion of the poverty story with over 60% of her population resident in the rural areas. Many areas in the country are marked deprived (areas lacking mostly the basic amenities like health facilities, education, water, electricity and the like) and this includes Sefwi Wiawso. Poverty in the area is so common that the people can hardly sustain their daily livelihood throughout the year let alone to talk of financing their children's education and meet their health needs.

The people of Sefwi Wiawso District whose main occupation is farming lack the necessary finance to acquire inputs to enable them increase the yields from their farms. This incapacitates them of making a sound living from their farms. The United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF) and the Agricultural Services Sub-sector Investment Programme (AgSSIP) exist in the District yet it is extremely difficult for the farmers and micro business owners to access any fund from them.

To strengthen the effort to reducing the widespread phenomenon of poverty in Sefwi Wiawso, various non-governmental organizations (NGOs) and other institutions also emerged in the area. TechnoServe, the German Technical Cooperation Agency (GTZ), International Institute for Tropical Agriculture (IITA) and ICDV Vocal came in to assist farmers with most of their input needs on what is termed 'Input-Based Credit'. This is to enable the poor farmer to acquire and use this inputs and pay after the season's harvest and on very flexible terms. The Rural and Community Bank (RCB), ARB Apex Bank, Savings and Loans Companies, Ghana Co-operative Credit Union and the UN funded Social Investment Fund (SIF) are all contributing in this area.

Unfortunately, soil fertility has fast depleted coupled with irregular rainfall and small farm holdings, the yield per hectare is hardly self-sustaining resulting in low incomes and so a farmer can hardly afford to live on the paltry and seasonal income.

1.1 Statement of the research problem

Sefwi Wiawso is well-endowed with valuable natural resources – both agricultural land and minerals. This resource base made Sefwi, one of the deprived areas in the upper Western Region of Ghana and predominantly a farming area, producer of the bulk of Ghana's cocoa yearly. With this remarkable contribution to the national economy, it is hoped that income from cocoa and other resources will transcend subsistence and lead to development of small and medium scale enterprises (SMEs) in the area and hence employment and sustainable income but Sefwi rather remains poverty stricken community.

Despite the above interventions, the needs of the people could hardly be met. Both farmers and small business operators still demand a lot of funds to expand their ventures to be able to make enough earnings to survive their families, finance their wards' education, and meet their health needs. The establishment and operations of MFIs in

Sefwi area was welcoming news to the citizens as their activities are helping to augment the existing interventions by narrowing the wide poverty gap and financially facilitating and strengthening all economic activities in the district.

This study sought to look at the activities of microfinance institutions operating in the Sefwi Area paying particular attention to how they are helping to reduce poverty in the area.

1.2 Research objectives

The study seeks to identify the major activities of MFIs operating in the Sefwi Wiawso District and the impact on the economic livelihood of the people of Sefwi Wiawso. The specific objectives of the study include:

1. To identify the operation mechanisms and specific activities of the MFIs in the Wiawso District;
2. To ascertain how MFIs are contributing to poverty reduction in the District;
3. To assess how accessible these institutions are and whether the people have fair access to micro-financing.

1.3 Research questions

In order to carry out this investigation properly and to realize the objectives set for the study, the research will attempt to answer the following questions:

1. What are the specific activities of microfinance institutions operating in the Sefwi Wiawso District and which operational mechanisms are they adopting?
2. How are the activities of these institutions contributing to poverty reduction n the District?

3. Are the citizens of Sefwi actually having fair access to the facilities of the microfinance institutions?

1.4 Significance of the study

It is vital to state that a good amount of researchers found this area of study very important to the development of the socio-economic activities in the developing countries. Extensive research has been carried out on various aspects of microfinance, especially on its role of financial management. This research therefore focuses on the particular activities of microfinance in the Sefwi Wiawso district and how these activities are exploited for development especially in the area of small scale businesses and farming. This study is equally very important because it is going to enlighten the government and the general public on the role MFIs are playing in the lives of the Sefwis and therefore encourage the expansion of microfinance activities in the area in order to speed up the achievement of poverty reduction strategy in the Sefwi Wiawso District.

Microfinance as a whole provides the rural population a means to have access to financial services in their localities to boost their living standards in a sustainable manner in line with the millennium development goals of alleviating poverty in developing countries. They can contribute in the fight against poverty by improving the agricultural sector which is the main source of living to the inhabitants of such developing nations. Thus it will pave a way forward for potential NGOs wishing to help in the sustainable development to understand the needs of the people and how they can tailor their activities to succeed in their endeavours.

1.5 Scope of the study

Microfinance activities are now all over Ghana. Every district of the country at least has an institution with its main objective of providing financial services to the poor which cannot be done by macro-financial institutions and as such helping in poverty alleviation and alleviating poverty. To cover the entire nation will be impossible given the limited time schedule for this research. For this reason, the research will be limited to the activities of MFIs in the Sefwi Wiawso District of the Western Region. The impact of these MFIs on development and poverty reduction in this district will be the main focus and will be analyzed by looking at their contributions in reducing poverty and in what form, and of course the response of the citizens of Sefwi to the contributions of these institutions.

1.6 Limitation of the study

There are number of limitations to this study. Firstly, the number of respondents was limited to 126; in terms of size and composition. Secondly, the data collection was restricted to only within the well populated areas of the Sefwi Wiawso District, which may fail to represent the actual scenario of the whole district.

The study was also constrained by time, availability of data from the MFIs, District Assembly and other relevant respondents. The research was conducted over a period of four (4) months which time frame is not sufficient enough to gather enough relevant data to evaluate the effect of MFI activities on poverty in the Sefwi Wiawso District. Also, due to low level of literacy in the district, much time and attention will have to be given to each respondent to be able to extract the information relevant to this study. This resulted in additional cost in gathering data for this research. The time and cost constraints limited the geographical coverage of the research.

1.7 Organization of the study

The research comprised 5 chapters in all with each chapter being subdivided based on content. Chapter one explored the background of the study, statement of the research problem, research objectives and questions, how significant this research might be to other interested individuals and institutions, the scope of coverage, limitations and the research plan. Chapter two of the study delved into available literature on the topic. These findings were categorized into concept, history and microfinance institutions. Other areas include microfinance and the poor, microfinance outreach, microfinance as development tool, the Grameen model, financing microfinance institutions, etc. Chapter three explained the method of data collection, the instruments used and the tools for data analysis. The chapter considers how the objectives would be achieved. It began with the research methodology, selection of population and sample size. Research instrumentation was also highlighted under this chapter as well as tools for data collection and analysis. Chapter four discussed data analysis and findings or results to confirm the views expressed in the related literature as well as proved that the objectives of the research were achieved. The final chapter provided suggestions and recommendations based on the analyzed data and the constraints faced during the research process and also advise any person who would wish to undertake similar research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

Poverty has been and is the concern of many people and governments and many institutions were getting involved with various strategies to curtail its menace. One of such strategies is microfinance. This chapter examined what available literature said to serve and guide this study. The chapter focused on the concepts of microfinance which are related to this study. It started with the microfinance concept and stated some products of MFIs. It also highlighted the history of MF and defined MF by reference to its characteristic. If further explained whether MF is a tool for development and how MFIs were organized. The characteristics of the target population and how poverty is alleviated through MF were detailed. The chapter concluded by examining literature on the impact of MF on poverty.

2.1 Concept of microfinance

Microfinance collectively refers to the supply of loans, savings, and other basic financial services like insurance, to the poor. As the poor people cannot avail these financial services from the formal commercial banks (because of collateral requirements), microfinance tends to satisfy the needs of the poor exclusive of these conditions (Karlan and Goldberg, 2007). For these financial services, the poor people are willing to pay for because of the added advantage they receive for not collateralizing anything (Park and Ren, 2001). The term also refers to the practice of sustainably delivering such services. More broadly, it is 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 (Christen *et.al*, 2004). Poor people are not able to get loans from commercial banks due to lack in guarantee and collateral. But there are also many other reasons why commercial banks are not willing to provide fund to poor people , such as poor people have less education, no real experience and training, high cost for transactions of small loans and lower profit (Mayoux, 1999). Therefore, limited opportunity to access loans leads people to fall more into poverty. This situation resulted in the emerging idea for new market of micro financing to assist the poor and very poor people.

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.

2.2. The history of microfinance

Until 1970s when microfinance had gained recognition through Muhammad Yunus, noble prize winner of the Grameen Bank (2006), Microfinance has been in existence since the 19^{th} century when money lenders were informally performing the role of now formal financial institutions. Professor Muhammad Yunus established the Grameen Bank in Bangladesh in 1983, fueled by the belief that credit is a fundamental human right. His objective was to help poor people escape from poverty by providing loans on terms suitable to them and by teaching them a few sound financial principles so they could help themselves (*nobleprize.org*). Microfinance therefore is not a new concept.

Microcredit is defined as a credit provided to 'poor' free-of-collateral (the only collateral is the 'peer collateral') through institutionalized mechanism. This credit is made available 'as and when' needed, at the doorstep of the client (Bajwa, 2001). Microcredit is generally defined as making small loans available directly to small-scale entrepreneurs to enable them either to establish or to expand micro-enterprises and small business. Microcredit is normally applied to target groups that would otherwise not qualify for loans from formal institutions. This includes the majority of those living below the poverty line (Commonwealth Secretariat, 2001).

Another view defined microfinance as formal scheme designed to improve the well being of poor through better access to saving and services loans (Schreiner, 2000). Microfinance refers to small-scale financial services primarily credit and savings provided to 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. Many such households have multiple sources of income (Robinson and Marguerite 2001).

The difference between microcredit and microfinance is that microcredit refers to very small loans for unsalaried borrowers with little or no collateral, provided by legally registered institutions. Currently, consumer credit provided to salaried workers based on automated credit scoring is usually not included in the definition of microcredit, although this may change. Microfinance typically refers to microcredit, savings, insurance, money transfers, and other financial products targeted at poor and low-income people (*microfinancegateway.org*).

The vision of the founders of microfinance was to supply formal financial services to poor people, who were shunned by banks because their savings were tiny, their loan demand was small, and they lacked loan collateral (Yunus, 2001). Poor people in developing countries lack access to formal financial services and the problem is especially serious in rural areas. This constrains their ability to start businesses, finance emergency needs, acquire assets and insure themselves against illness and disasters (Zeller and Meyer, 2002). The professed goal of public support for microfinance is to improve the welfare of poor households, through better access to small loans (Navajas, et al., 2000). In most instances, public funds for microfinance institutions carry a mandate to serve the poorest (Microcredit Summit, 2003). For instance, the Microcredit Summit in 1997 rallied support to seek more than US$20 billion to provide microfinance products and service to 100 million of the poorest households (Navajas et al., 2000; Daley-Harris, 2007). As observed by Navajas et al. (2000), most microfinance institutions tend to serve not the poorest of the poor, but rather those near the poverty line. Thus, the empirical question to answer is whether microfinance programmes are reaching the poorest of the poor or the very poor.

Microfinance institutions generally stress serving clients outside the frontier of formal finance, although most often relatively few data are available to document the nature of the clientele actually served, especially in Sub-Saharan Africa (Mayoux, 1999; Buss, 2005; Lafourcade et al., 2005). There are also different views among researchers, providing diverse views about the depth of outreach of microfinance programmes.

2.3 Definition of microfinance

Microfinance is a term that is being used by different people, organization and government to mean different thing at different time. Karlan and Goldberg (2007), sees microfinance as the provision of small scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to low income clients for self employment, often with simultaneous collection of small amounts of savings.

Park and Ren (2001) noted that microfinance programs are united in aiming to provide financial services to individuals traditionally excluded from the banking system, especially women. This definition re-echoed the views of Karlan and Goldberg. Most microfinance initiatives explicitly target the poor. They overcome conventional obstacles to banking with the poor by paring down traditional branch – banking structures to reduce transaction costs, by using collateral substitutes that harness peer screening and monitoring effort via group lending contracts, and by creating dynamic incentives by increasing loan sizes over time - conditional on repayment histories.

At its simplest, microfinance is an economic approach to the delivery of financial services to those that are hitherto unreachable at a fee that is affordable and economic to the users of such services. At the same time, funds from the providers of financial services are used to generate adequate returns for the users, thereby building up their enterprises and creating employment opportunities which will help to reduce the poverty level in the economy. Microfinance is a holistic approach designed to improve the lot of micro, small and medium scale entrepreneurs both in the rural and urban areas in accessing fund as at when needed from the conventional banks (Ledgerwood, 1999). Udeaja and Ibe (2006) provided a broader definition of microfinance institutions (MFIs) as an organization specifically providing financial services to the poor.

2.4 Characteristics of microfinance

The main characteristic of the microfinance is providing small loans to the business. According to Murray, U and Boros, R (2002) microfinance has several characteristics that are:

1. Small amounts of loans and savings.
2. Short- terms loan (usually up to the term of one year).
3. Payment schedules attribute frequent installments (or frequent deposits).
4. Installments made up of both principal and interest, which is amortized over the course of time.
5. Higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with

making small loans and allowing the microfinance intermediary to become sustainable over time.

6. Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status.

7. Application procedures are simple.

8. Short processing periods (between the completion of the application and the disbursements of the loan).

9. The clients who pay on time become eligible for repeat loans with higher amounts.

10. The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Larger loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.

11. No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, such as the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

2.5 Microcredit as development tool

During the last two decades, micro-credit approach has been increasingly incorporated in the development discourse. Specially the credit is given to the women and the popular belief is that women are benefited and empowered and are being acknowledged for having a productive and active role and thus it is the gateway of gaining freedom for themselves. Since the start in Bangladesh by the NGOs, in the late 1970s, it has spread all over the world and is now believed to be a successful method of poverty alleviation (*nobleprize.org*). Such NGO Programmes have reversed conventional top down approach by creating livelihood opportunities for the poorest citizen, especially for the women who are about 94 percent of their client. (Thente and Sofia, 2003). Microcredit is now considered the effective development tool of poor people; especially for women.

In most developing countries, policies for rural financial development have been based on three erroneous beliefs concerning their target groups: 1. rural micro-entrepreneurs are unable to recognize themselves, 2. they are too poor to save; and 3. they need cheap credit for their income-generating activities or small enterprises (Harper, 2003). The microfinance company analyzes the need of their target customer that they required small loans in term of microcredit to sustain their small enterprises.

2.6 Microfinance institutions

A microfinance institution is an organization that arranges small loans and financial services to the poor people and small business. According to the definition on 'Microfinancegateway' an MFI is the organization that offers financial services to low-income people (*Microfinancegateway.org*). There is a wide range of micro financial institutions. Mostly when we talk about these, financial NGOs come into mind. These financial NGOs provide micro credit and micro finance services too though in most cases these financial NGOs are not allowed to capture saving deposits from general public. Many NGOs provide other financial services along with microfinance and similarly some commercial bank are also providing microfinance along with their routine financial activities so because of these micro finance services which are quite bit part of the whole of the activities of these commercial banks we can call these as a microfinance institutions (Rehman, 2007). There are some other MFI´s that can be considered in the business of micro finance. These institutions are the community based financial intermediaries such as credit union; cooperative housing societies and some other are owned and managed by the local entrepreneur and municipalities. This type of institution is varying from country to country (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).

2.7.0 Organization of microfinance institutions

2.7.1 Cooperative financial institution

This is a financial institution that can be termed semiformal. It constitutes credit unions, savings and loan cooperatives and other financial cooperatives. They are generally identified as credit unions or savings and loan cooperatives and provide savings and credit services to its members. There are no external shareholders and run the same as a cooperative and implementing all its principles. Members who are at the same time customers make the policy of the cooperative. They are either elected or work on voluntary bases. They are not often subjected to banking regulations but have their own regulations and are under the supervision of the ministry of finance of the country. Individual financial cooperatives in a country are often govern by a league that coordinate activities of these credit unions, trains and assist its affiliates, act as a place where the deposit and provide inter lending facilities and act as a link between external donors and the cooperative system (Schmidt, 1997). They raise capital through savings but to receive loans is not easy. Loans are delivered following the minimalist approach where the requirements for loans are not often difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt, 1997).

2.7.2 Group lending

This method of providing small credits to the poor is most use by microfinance that provides loans without collateral. The interest charge is not much different from that of commercial banks but far lower than interest charge by individual money lenders (Natarajan, 2004). The Grameen bank is a typical example of microfinance institution using this method. The repayment rate is very high since each member is liable for the debt of a group member (Stiglitz, 1990). Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group; and the group acts as a collateral which is term *social collateral*. This is to avoid the problems of adverse selection and also to reduce costs of monitoring loans to the members who must make sure the loan is paid or they become liable for it.

2.7.3 Individual lending

This is the lending of loans to individuals with collateral. Besley and Coate (1995) say despite the advantages of lending to groups, some members of the group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. Stiglitz (1990) highlights that members in group lending bear high risk because they are not only liable for their loans but to that of group members. Navajas et al. (2000) and Zeitingner (1996) recommend the importance of routine visits to the clients to make sure the loan is use for the project intended for. These monitoring is vital but at the same time increases the cost of the microfinance institution.

2.7.4 Self-help groups (SHG)

This is common among women in the rural areas who are involved in one income generating activity or another (Ajai, 2005). Making credit available to women through SHGs is a means to empower them. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives. SHG provides its members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support both financial, technical and other wise to enable them engage in income generating activities such as; tailoring, bee keeping, hairdressing, weaving etc. It has a bureaucratic approach of management and are unregistered group of about 10 – 20 members who have as main priority savings and credit in mind (Ajai, 2005). The members in the SHG have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 1995).

2.7.5 Village banking

This is a method of lending to individual members to have constant access to money for their Micro-enterprise daily transactions (Mk Nelly and Stock, 1998). Borrowers are uplifted using this method because they own SME that earn money sustainably. This enables them to acquire a larger loan sum which gives them higher profit when introduced into the business and of course the interest with this high sum is high making the bank financially sustainable. Village banking as of the 90s has gained grounds and certain adjustments are made to suit partner institutions (Nelson et al; 1996). Hatch and Hatch (1998) Village banking loan and savings growth rate increases as the bank continue to exist.

2.8 Microfinance and development

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. It includes loans, savings, insurance, transfer services and other financial products and services. Microfinance is thus one of the critical dimensions of the broad range of financial tools for the poor, and its increasing role in development has emanated from a number of key factors that include:

- The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life;
- The realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans;

- The observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor;
- The view that microfinance is viable and can become sustainable and achieve full cost recovery;
- The recognition that microfinance can have significant impact on cross cutting issues such as women's empowerment, reducing the spread of HIV/AIDS and environmental degradation as well as improving social indicators such as education, housing and health (economicswebinstitute.org).

Studies have shown that micro-finance plays three broad roles in development (Otero, 1999):

- It helps very poor households meet basic needs and protects against risks,
- It is associated with improvements in household economic welfare,
- It helps to empower women by supporting women's economic participation and so promotes gender equity.

The literature further suggests that micro- finance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

Otero (1999) again had additional view of micro finance. According to him, the aim of microfinance is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By bridging this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of micro-credit in achieving the Millennium Development Goals.

According to Simanowitz and Brody (2004), micro-credit is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people." Littlefield, Murduch and Hashemi (2003), in their view, state "micro-credit is a critical contextual factor with strong impact on the achievements of the MDGs. Micro-credit is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale".

However, some schools of thought remain skeptical about the role of micro-credit in development. For example, while acknowledging the role micro-credit can play in helping to reduce poverty, Hulme and Mosley (1996) concluded from their research on micro-credit that "most contemporary schemes are less effective than they might be" (Hulme and Mosley, 1996; p.134). The authors argued that micro-credit is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off.

This notwithstanding, microfinance has emerged globally as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming the lives of poor people. It is argued that microfinance can facilitate the achievement of the Millennium Development Goals (MDGs) as well as National Policies that target poverty reduction, empowering women, assisting vulnerable groups, and improving standards of living. This was pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit 2005. He intimated 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).*

Although microfinance is not a panacea for poverty reduction and its related development challenges, when properly harnessed it can make sustainable contributions through financial investment leading to the empowerment of people, which in turn promotes confidence and self-esteem, particularly for women and the youth in general.

2.9 Characteristics of the target population

2.9.1 Female client. The main focus in many MFIs is to empower the women by increasing their financial power and position in the society so as to have equal opportunity as men (Mayoux, 1999). The poorest people in the society are known to be women and they also are responsible for the child upbringing including education, health, and nutrition. There are cultural barriers that exist between the women that make them to stay at home making them to have the constraint access to financial services. Some banks are unwilling to lend to the women because their access to property is limited and they also have fewer sources of collateral security. Based on experience, women generally are very responsible and are affected by social forces. When the income of a woman is increased, the effect is noticed throughout the household and to the community than when that same amount is increased to a man. They also have a high repayment loan and savings rate than their male counterparts (Ledgerwood, 1999). A study carried out by the World Bank, sustainable banking for the poor with the title of the project "Worldwide Inventory of Microfinance Institutions" found that female programs are group based with the characteristic of having small loan size and short loan term (Paxton, 1996).

2.9.2 The level of poverty. Poverty alleviation is the focal point of microfinance institutions and the poorest form a majority of the population. The outreach of MF services to the poor is measured in terms of scale, the number of clients that is reached and the depth of the clients they reach (Ledgerwood, 1999). Institutions that are contributing in the fight against poverty are very effective in the improvement of the welfare of those under and those just above the poverty line (Hulme and Mosley, 1996).

2.9.3 Geographic focus. MFIs serve both urban and rural areas but their focus is more in the rural areas. Products and services offered by the MFIs are aimed towards meeting the expectations of the target location or area. Those in the rural areas are different from those in the urban areas and the infrastructural development in these areas also matters. Markets are very important for microenterprises irrespective of the area where the firm is located. The difficulty to produce and distribute or deliver the goods because of lack of infrastructure will hinder or retard the growth of businesses thus limiting the financial services that will be demanded. An example of a reduce transaction cost will be the availability of good road network. Grameen Banks is a typical MFI that is successful and it has branches in the same geographical areas where their clients live (Ledgerwood, 1999).

2.10 Outreach of Microfinance

It must be noted that one of the criteria for judging the performance and benefits of microfinance institutions is outreach (Zeller and Meyer, 2002). In measuring institutional outreach, it is important to distinguish between the extent or breadth and the depth of outreach. The extent of outreach is represented by the absolute number of households or enterprises (or relative market penetration) in the target population reached by the institution, whilst the depth of outreach indicates how deep into the pool of the underserved the institution has been able to reach.

MFIs were focusing on the poor and in order to have access to or supply of MF services with demand has been constant for MFIs trying to serve clientele outside the border line of formal financial institutions (Von Pischke, 1991).

As observed by Navajas et al. (2000), most microfinance institutions tend to serve not the poorest of the poor, but rather those near the poverty line. Thus, the empirical question to answer is whether microfinance programmes are reaching the poorest of the poor or the very poor.

Microfinance institutions generally stress serving clients outside the frontier of formal finance, although most often relatively few data are available to document the nature of the clientele actually served, especially in Sub-Saharan Africa (Mayoux, 1999; Buss, 2005; Lafourcade et al., 2005). There are also different views among researchers, providing diverse views about the depth of outreach of microfinance programmes.

2.10.1 The triangle of microfinance

The performance of the financial sector in providing financial intermediation for small and medium size enterprises can be evaluated in three vital dimensions: financial sustainability, outreach, and welfare impact (Zeller and Meyer, 2002). They went further to say that this microfinance triangle is the main policy objective of these microfinance institutions which are aimed towards development.

It was before now more emphases were laid on improving the outreach to small farmers in the 1960s and 1970s, and in the 1980s and 1990s to the poor. This was focused on serving more of the poor (breadth of outreach) and the poorest of the poor (depth of outreach) (Zeller and Meyer, 2002). The main objectives of microfinance institutions are prioritized differently by different authors. Researchers like Christen et al. (1995) argued that increasing access to reach the poorest of the poor (depth of outreach) and sustainability are compatible objectives. Although Hulme and Mosley (1996), Lapenu and Zeller (2002), with others argue that there may be a trade-off between augmenting outreach to the poorest and attaining financial sustainability. This trade-off is as a result from the fact that MFI transaction costs have a high fixed cost element which makes unit cost for smaller savings and smaller loans high as compared to larger financial transactions. This rule of reducing unit transaction costs with larger transaction size generates the trade-off between better outreach to the poor and financial sustainability, regardless of the borrowing technology used (Zeller and Meyer, 2002). The financial sustainability of the financial institutions and outreach to the poor is two of the three policy objectives of the contemporary developments in the field of microfinance. Welfare impact is the third policy objective that relates to the development of the financial system and precisely on economic growth and poverty alleviation and food insecurity.

The crucial triangle of microfinance is a triangle that reflects the three policy objectives of MF of outreach, financial sustainability and impact. Some of these objectives contribute more impact and at the same time inadequate outreach. The other objectives may produce limited impacts but are very much financially sustainable (Zeller and Meyer, 2002). The impact of finance can be increased through complementing non financial services such as SMEs or marketing services, or training of borrowers that raise the profitability of loan financed projects (Sharma and Buchenrieder, 2002). The MF impact assessment studies reviewed suggested that the poorest amongst the poor can gain from microfinance by having a constant consumption through the management of their savings and borrowing habits.

2.11 Role of microcredit in poverty alleviation

Microfinance is recognized as an effective technique to remove poverty by providing financial services for those who have no access to or are neglected by the banks and financial institutions. The poor people are very sharp in removing their poverty, they have good ideas and they are very hard workers but the problem with them is that they have no resources. Microcredit is helping provide these resources by small loans, and help people improve their income level. According to Ahmad (2000), it is recognized that people living in poverty are innately capable of working their way out of poverty with dignity, and can demonstrate creative potentials to improve their situation when an enabling environment and the right opportunity exists. It has been noted that in many countries of the world, micro-credit programmes, provide access to small capitals to people living in poverty.

The phenomenon of poverty was felt and observed more during the decade of 1990s, as the overall growth slowed down. While the slower economic growth contributed to poverty, the ―trickle-down effect, once thought to improve living conditions, did not reach the lowest level owing largely to lack of accessibility to financial institutions, unjust and 17 non-poor policies (Waheed, 2001). Poverty has been a major challenge since the known civilization came into existence. After the 1990s the poverty rate rose in the economy, and to control it, microcredit is the one of the best tools. Large numbers of poor people have improved their income as well as contribute to national economy.

In recent years, in its wider dimension, micro-credit known as micro-finance, has become a much-favored intervention for poverty alleviation in the developing countries and least developed countries. There is scarcely a poor country and development oriented donor agency, (multilateral, bilateral and private) not involved in promotion (in one form or other) of a micro-finance program. Many achievements are claimed about the impact of micro-finance programs, and an outside observer cannot but wonder at the range of diversity of the benefits claimed. Various studies demonstrate that rapid and sustainable poverty reduction depends on interaction of a wide range of policy measures and interventions at macro and micro levels (Ahmed, 2002).

2.12.0 Micro entrepreneurship

Microfinance is an emerging tool for economic development, poverty alleviation, empowering of low income communities and contributing a new role in microentrepreneurship (Mondal, 2002:p.1-3). The microfinance sector analyzes the need of their target customer that they required small loans in term of microcredit to sustain their small enterprises.

There are two types of microfinance borrowers; one is a Micro borrower and the other, a Micro entrepreneur. A micro borrower has the mind like capitalist whose aim is to earn profit while doing business. So a micro borrower gets finances from MFIs (Micro Finance Institutions), and after paying back, again they will get finances but only if the motive is to generate profit but not any entrepreneurial achievement. On the other hand, a micro entrepreneur finances their business and brings innovation, creativity and doing differently from others (Mondal, 2002).

2.12.1 Types of microenterprises

The type of population to be serve and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. The type of activities that the business is involve in is also determined and this can be; production, commercial or services activities (Ledgerwood, 1999).

2.12.2 Type of business activities

The business activity of a microenterprise is equally as important as the level of business development. There are three main primary sectors where an enterprise may be classified;

production, agriculture and services. Each of these sectors has its own risk and financing needs that are specific to that sector. MFIs are motivated to finance in a particular sector by providing the products and services that are relevant to that sector after analyzing the purpose for the loan, term of the loan, and the collateral on hand for each of the sectors. Some MFIs target only one sector where as others provide products and services for more than one sector. Their actions are determined by their objectives and the impact they wish to achieve (Ledgerwood, 1999).

2.12.3 Microfinance outreach approaches (supply of microfinance services to clients)

The approach taken by an MFI will depend on the degree to which these MFIs will provide each of these services and whether it follows a "minimalist" approach or "integrated" approach.

The minimalist approach offers only financial intermediation but they can sometimes offer partial social intermediation services. This approach is based on the fact that there is a single "missing piece" for the growth of enterprises and it is assumed to be the lack of affordable, accessible, short-term credit which the MFIs can offer.

The integrated approach takes a more holistic view of the client. This approach creates avenue for a combination or range of financial and social intermediation, enterprise development and social services. MFIs take advantage of its nearness to the clients and based on its objectives, it provides those services that are recognized as most needed or those that have a comparative advantage in providing. The demand and supply of these services will determine the approach that a MFI will choose and also the circumstances in which it is operating (Ledgerwwod, 1999).

2.13 Microfinance provides Empowerment

Microfinance provides empowerment to the women. Misra (2007) describes empowerment as a power to the people and self governance. He quoted "Empowerment builds self-reliance and strength in women, preparing them towards gathering the ability to determine the choice of life". This adds to the command over resources, outwit insubordination and signify their social role.

While according to PREM, WB (2002), ―Empowerment is the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives.

Many MFIs direct themselves directly towards women who are commendable for at least three reasons: there is a great need for women empowerment; to support women has proved to be an efficient way of helping entire communities; it is good business since they generally repay their loans. No doubt, access to credit is a major constraint on small scale enterprises and the majority of microenterprises are run by women. Consequently there is a clear gender aspect to microcredit and women empowerment is expected. This is important enough in itself, but might also have a positive effect on development and poverty reduction. Pitt & Khandker (2003) examines the effect of microfinance on women empowerment in Bangladesh, based on panel data from 1998/1999, and find that it has major positive effects when women borrow. However, when men received the credit the results were "at best, neutral and at worst, decidedly negative". In an earlier study they found that consumption increased by 18 units for every 100 units that were borrowed if the loan taker was female; otherwise it was 11 to 100; Pitt & Khandker (1998).

2.14 Microfinance and the poor

A growing body of evidence suggests that very poor households are either excluded from accessing microfinance programmes (Hulme and Mosley, 1996; Navajas et al., 2000; Datta, 2004). According to these authors, increasingly extremely poor people are seen to be dropping out of credit programmes after having failed to keep up with repayment installments. Some critics also question the efficacy of microcredit in reaching extremely poor people. They argue that, while micro-credit has contributed positively to the wellbeing of poor people in general, it has failed to reach the poorest of the poor. Most microfinance institutions tend to serve not the poorest of the poor, but rather those near the poverty line.

Whilst it has been demonstrated that microfinance programmes do not help the poorest, some researchers have pointed to several general issues, including the design features that make it work for the poorest (Hickson, 2001). Detailed research undertaken by Montgomery (1996) on the SANASA programme revealed that some design features of savings and credit schemes are able to meet the needs of very poor people. Findings from the study show that easy access to savings and the provision of emergency loans by the microfinance institutions enable very poor people to cope better with seasonal income fluctuations. While innovative strategies pursued by microfinance institutions have enabled them to make loans more available to poor people, there is still debate over the design of appropriate financial services for the poorest (Johnson and Rogaly, 1997). Similarly, in their research on the impact of 13 microfinance institutions in seven developing countries on poverty and other target variables, Mosley and Hulme (1998, 783) argued that 'for well-designed schemes' impact at all levels of income, is higher than for ill-designed schemes'.

Other researchers see 'targeting' by microfinance programmes as being effective in reaching the poorest of the poor. Even a well designed microfinance programme is unlikely to have a positive impact on the poorest people unless it specifically seeks to reach them through appropriate product design and targeting (Wright, 2001). Experience has shown that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves because they do not see the programmes as being for them, do not have the correct clothes, etc. (Navajas et al., 2000). According to Martin and Hulme (2003), earlier studies of poverty-reduction programmes have demonstrated that programmes that adopt a livelihood promotion approach, such as microcredit and skills training, can benefit poor households, but do not directly benefit the hardcore poor (Zaman, 1998; Hashemi, 2001). Martin and Hulme go on to argue that:

> *such programmes have the advantage of being relatively cost effective but they come with a 'price', by excluding the chronically poor. They examine evidence from BRAC Income Generation for Vulnerable Groups Development (IGVGD) programme that seeks to reach Bangladesh's 'hardcore poor' by combining elements of livelihood protection (food aid) and livelihood promotion (skills training and microfinance). By combining both approaches, it is possible to deepen the reach of poverty reduction schemes; so that the hardcore poor can derive direct benefits and some of them can escape absolute poverty (Martin and Hulme, 2003, 661).*

They find, however, that although IGVGD can reach deeper than merely promotional schemes, and can benefit the chronic poor, it cannot totally replace programmes of pure social protection. A small proportion of the population will always need more traditional 'social welfare' support to avoid persistent deprivation.

By combining loans with savings and insurance products, microfinance can further help to minimize the use of loans for consumption. Montgomery (1996) suggests that financial products, such as savings facilities, insurance and small consumption loans with flexible repayment periods, might be more suitable to the needs of the poorest. They would increase the short-term impacts, in terms of the productivity of the asset which the loan financed. Despite the growth of microfinance, programmes specifically designed to target the poor are still not very widespread. It is still being debated whether reaching the poorest people with these programmes is even desirable. The ability of microfinance programmes to reach the poorest is limited, because they lack the necessary skills, such as accounting ability and entrepreneurship, to create and sustain a business. To make the programme effective for the poorest would require greater resources for literacy and basic training programmes. Therefore, credit-based programmes should be one component of a poverty reduction strategy. An argument could also be made that focusing on those near the poverty line would still help society as a whole and, at the same time, increase the chances of the programme becoming self-sufficient (Gulli, 1998).

According to Morduch (2006), recent studies show that microfinance mainly serves moderately poor and low-income households, though with weaker outreach to the very poor. The author states further that studies completed as part of legislation mandated by the US Congress, for example, show that:

> *in Peru, Kazakhstan and Uganda, roughly 15 per cent of microfinance customers were among the poorest half of the poor as defined by the official poverty lines in their countries; and in Bangladesh, 44 per cent were found to be among the poorest, a figure lower than expected (Morduch, 2006, 11).*

MFIs differ from ordinary banks in several ways. For one they usually have an explicit goal to reduce poverty. Considering this, it is reasonable to assume that they would direct themselves to the poorest people offering them access to credit. This is not always the case though; MFIs have a tendency to not reach the ones who need it the most (Morduch & Haley 2002).

Zeller & Meyer (2002) write about the triangle of microfinance by which they mean it's three objectives outreach, financial sustainability and impact. MFIs need to

1) reach the poor to get them involved in the financial system and

2) make sure that the services offered really improve on the quality of life for the loan takers. On top of this, the MFIs have to

3) be viable and not be too dependent on governmental support and aid.

This search for profit can cause the MFIs to stray a bit too far from the original objective of assisting people – a phenomenon called mission drift (Kono & Takahashi 2009). This is a dilemma, considering the opportunity cost of the governmental support; the money used to finance MFIs could go to other projects and programs; putting pressure on the microcredit scheme to be very efficient. If poor people are considered a riskier investment, this can explain some MFIs hesitance to extend credit to them. However, that reasoning drives them closer to being regular banks when it becomes objective.

As to the methods, MFIs often demand weekly or monthly installments and employ other measures such as group lending and joint liability. Lending money to groups instead of single individuals is an attempt to circumvent the information asymmetry; if someone fails to pay, the entire group is punished, often by not being allowed to borrow anymore. This creates peer pressure that potentially can compensate for weak legal institutions and the lack of collateral.

By letting potential borrowers form the groups themselves, MFIs wish to avoid adverse selection; the people know each other and would not let a risky borrower enter a group.

This implies that there will be two types of groups, those including only safe borrowers and those consisting solitarily of risky lenders.

It has also been revealed that group lending methodologies used by most microfinance institutions have more potential for deeper outreach than individual lenders did (GHAMFIN, 2007). Thus group lending methodologies have more potential for deep outreach, because they substitute joint liability for physical collateral. Microfinance may or may not be a good development gamble. Again, depth of outreach tends to be very high in situations where the microfinance institution operates in more rural and remote areas than in an urban setting, where the majority of the clients are less poor.

2.15 Financing Microfinance Institutions

Source of financing microcredit activities is one of the important considerations if one wants to properly assess the impact and outreach of microfinance operations on the livelihood of the poor in society. Most operators in the sector face a lot of difficulties in the period of start-up which most often affects the operation capacity.

Siebel Hans Dieter, (2007) stated that history has shown according to the Syngenta Foundation Discussion (SFD) that, regardless of ownership, type of institution, and rural or urban sphere of operation, to be sustainable MFIs ultimately have to:

– Mobilise their own resources through savings and equity, augmented by other domestic resources:

– Recover their loans

– Cover their costs from their operational income

– Finance their expansion from their profits

– Acquire an appropriate legal status

– Submit to appropriate regulation and supervision

There is no place for charity in microfinance. As one contributor to the SFD put it, "in a situation where there is no strict supervision and monitoring…, working without any hard budget constraints and mixing microfinance business with charity, (will lead to) crowding out the operations of more sustainable rural financial intermediaries."

2.16 Measuring the impact of microfinance and poverty

To analyze the impact of a more inclusive financial sector on poverty, it is necessary to discuss the concept of poverty. The World Bank defines poverty as "pronounced deprivation in well-being" (World Bank 2010). A straightforward description no doubt, but is this view of poverty possible to measure? In order to be able to analyze development and any progress made in poverty reduction, it is inevitable to simplify the complex reality and the concept of poverty. A common way to do that in economic analysis is to set up a poverty line. It can be in relative terms, for instance anyone is considered poor who has a disposable income that is below a certain percentage, say forty percent, of the average income in a specific country. It can also be absolute, for example people living on less than 1.25 or 2 dollars a day. This is a narrow view of poverty, as solely a monetary issue, and it misses out on many important aspects. However, this definition of poverty is easy to quantify and measure, and is therefore rewarding to use in quantitative research.

An even more extensive view of poverty is the one most associated with Nobel Prize winner Amartya Sen. In his interpretation poverty is a deprivation of fundamental capabilities. The definition is very inclusive; when people are not free to live a life they value they can be considered poor. Thus poverty is not restricted to financial aspects, but includes social opportunities, political concerns and all kinds of freedoms (Sen, 1999).

Sen also argues that leveling out differences in economic (as well as other kinds of) opportunities creates prosperity, both for the individual and for the society. He by no means dismisses the use of more monetary definitions of poverty for the purpose of quantifying and studying poverty. In fact he supports it by affirming a negative relationship between increased income and the deprivation of those fundamental capabilities that, in his view, constitute poverty (Sen, 1999).

2.17 Grameen Model

A prominent economist and professor from Bangladesh, Muhammad Yunus in 1976, came up with a new concept and model, which is called, ―The Grameen Model. During a field trip to a relatively poor village in Bangladesh with his students in 1974, Muhammad Yunus interviewed a woman who had a small business of making bamboo benches. Due to the shortage of resources to purchase the raw materials, she was forced to borrow small amounts of money from a local lender. Without any collateral, she could only borrow enough money to buy the raw materials to build one piece at a time. The woman had to repay the lender with high interest rates. Sometimes the interest rate of that loan exceeded 10% of the principal amount. After repaying the lender, the woman was left with a profit margin that was not enough to even meet her basic daily needs. Had she had access to more complimentary terms for her loan, she would have been able to save enough money to protect her from future uncertainties and in the long run, would have been able to raise herself above the survival level. Discouraged by what he saw, Dr.

Yunus took matters into his own hands and lent a small amount of money as a loan to some 42 rural basket-weavers. He found that these small loans went a long way, and almost everyone who had borrowed the money, were keen to repay their loans. Dr. Yunus found out that even with this tiny amount of money it is possible not only to help the poor to survive but also to create the spark of personal initiative and enterprise in the people, necessary to pull themselves out of poverty (Roy and Mark, 2003).

In Grameen model, a unique and innovative approach of group lending is used. As Sengupta, Aubuchon (2008) described, the group lending has many benefits. First, groups usually organize in members who are neighbors to each other; those can understand each other well and recognize their needs. Second, if anyone of the group members is not present in the group meeting, the leader or another member can pay its installment. We can say that there is a kind of mutual understanding between all members. Third, in south Asia generally, and specifically in Bangladesh, there are social pressures among members of society with social bindings with them. If one member of the group will not pay even one installment, social pressure will be levied from all eight groups on this member. Ultimately he will try to pay installments. This leads to the reduction of risk.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter explained the approaches adopted to gather data for this study. It included the method used for the research, how interviewers and the responding population were selected. It further explained the instruments used in collecting data for this study and concluded with how the data collected were analyzed highlighting SPSS 16.0 as the main tool used for the analysis.

3.1 Research Method

This research adopted the qualitative research approach in analyzing and discussing the research findings. This approach was chosen because it is a research approach that describes data and the characteristics about a situation being studied.

Questionnaires were the main tool used in collecting the primary data from all respondents. The choice was to enable us obtain an objective view on the research topic from the respondents. Oral interviews were used to extract further response on issues not captured by the questionnaire.

3.2 Selection of Interviewers

Three people assisted in interviewing the respondents to gather data for this study. This comprised two undergraduates and one recent graduate. This was important because the major towns covered by the research study are well-dispersed and this would not allow me to be physically present at all the locations chosen for the study. Also, the level of education in the area is such that individual attention needs to be given to each respondent in terms of translating and interpreting some elements of the questionnaires. The persons chosen to assist understand the language of the people and it was hoped that they would be able to obtain information relevant for this study.

3.3 Sampling techniques and procedure

This study employed both probability and non-probability sampling techniques. Purposive sampling (non-probability technique) was used to extract data from the MFIs. The choice of this technique was appropriate given the number of the MFIs and because of the need to focuses directly on the MFIs as source of relevant data for the research study.

Simple random sampling (probability sampling technique) was used to select customers within the selected areas of study: Sefwi Wiawso and its adjoin town, Sefwi Dwenase, Sefwi Asawinso, Boako and Aboduam and Bosomoiso. This technique was chosen to it provide each member of the population an equal and independent chance of being selected to avoid being bias in our choice of respondents. This was accidentally applied as this sampling method does not specifically target respondents and thus influenced objectivity and convenience in the data collection.

3.4 Sample size

The sample size chosen for this study was one hundred and twenty-six (126) respondents. In all, 126 questionnaires were administered in the district covering the major towns of Sefwi Asawinso, Boako, Dwenase and Wiawso, Aboduam and Bosomoiso; 30 questionnaires were administered in Sefwi Asawinso and 46 at Sefwi Wiawso and its adjoin town Dwenase which are major market areas as well as operation zones for the microfinance service operators in the district. The other target areas were each allocated 24 and 20 questionnaires respectively. Six (6) questionnaires were administered to the MFIs in the district.

3.5 Research design

Primary data was gathered through questionnaire administration and interview of the respondents chosen for this study.

The researcher sourced a pool of literature, articles and material on the internet on the research question and so used the deductive approach in order to go deep into the research problem. These constituted the literature review of the study. The research questions were structured to obtain both qualitative and quantitative data.

3.6 Instrumentation

Questionnaires were the main tool used for collecting data for this research. The choice was made to achieve some convenience - besides its being the most common tool -in collecting the primary data. Malhotra and Birks (2003), emphasized this survey approach as the most common method of primary data collection in marketing research with the advantages being simple administration and data consistency. There were two sets of questionnaire: one for the MFIs and their staff and the other for the customers of MF and the general citizenry. The questionnaires were self-constructed and structured entirely in English and was be in two parts: Part A that was mainly be for respondent's personal details focusing on some basic demographic characteristics, such as age, sex, occupation and location of the respondents and Part B, which will solicit information regarding microfinance, its impact and accessibility and outreach.

The survey questionnaires were administered in the business places of some of the respondents, homes and lorry stations (taxi drivers being customers). The interviewers assisted those who do not understand English to fill out their questionnaires.

3.7 Method of analysis

The Microsoft Excel and Statistical Package for Social Sciences (SPSS) 16.0 were used to analyze the data collected to assess how the activities of the MFIs are contributing to poverty reduction in the Sefwi Wiawso district. The description statistics was applied to assess the growth in the activities of the MFIs – three years data were used. The model summary table reports the strength of the relationship ('R' value) between the model and the dependent variable ('R^2' value). The package was used to establish the desired relationship that may exist between poverty reduction and MFIs activities; the main objective for this research study. Relativity of variables was achieved through the simple frequency statistics of the Microsoft office Excel or that of the Statistical Package for Social Sciences (SPSS).

In coding the data collected a common rating scale consisting of 5 steps from 1 (strongly disagree) to 5 (strongly agree) was used. The Likert scale of rating was used though it is also possible to use seven steps as claimed by Fisher (2007) but it could be boring for the respondent to think about those many alternatives.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 DATA PRESENTATION

This study was focused on the effect of microfinance on poverty reduction in the Sefwi Wiawso District and this section presents data collected and how it was analyzed. There were two sets of questionnaires for both the microfinance institutions and the customers (members) who are mostly small business owners and farmers. The questionnaires sent out to the microfinance operators had 28 questions each and a total of 6 questionnaires were distributed among the six (6) institutions of which only a total of four (4) were answered and there was no response from two (2). A total of 120 questionnaires each containing 27 questions were administered to customers of the institutions who were chosen randomly in four different locations of Sefwi Wiawso and Dwinase, Boako, Asawinso and Aboduam and Bosomoiso; all major towns in the Sefwi Wiawso District. The data collected was analyzed with Excel and Statistical Package for Social Sciences (SPSS).

We did interview some loan officers in some MFIs orally asking them if gender do play a role in their operations and in getting a loan. This was because we noticed on our questionnaires that we did not mention if gender play a role in getting a loan. However, the response throughout was that gender do not play a role in acquiring a loan but that any person who meets up with the requirements to get a loan is granted. The function of the loan officers is to: educate the members on how to get a loan; give out loans within savings; and lastly channel out applications for loans that require collaterals to the loan committee so that they can deliberate on the loan and this committee is made up of elected members of the credit union. The table below presents the descriptive statistics (Frequency statistics) of the questionnaires administered to the respondents.

Table 4.1: Questionnaires administered to Customers and general public

Area	Sex		No. of Questionnaires	Actual Response	Response Rate (%)
	Male	**Female**			
Sefwi Wiawso	16	30	46	44	95.65
Boako	8	16	24	20	83.33
Asawinso	10	20	30	25	83.33
Aboduam/Bosomoiso	8	12	20	17	85.0
Total	**42**	**78**	**120**	**106**	**88.33**

Source: Survey by Researcher

A total of 120 questionnaires were sent and administered among the customers and the general public in the major areas chosen for this research; not all the questionnaires were answered. 46 questionnaires were administered at Sefwi Wiawso and its adjoining town, Sefwi Dwinase. 14 male and 30 female responded resulting in actual response of 44 and a response rate of 95.65%. Boako and Asawinso had 24 and 30 questionnaires distributed respectively of which 20 and 25 questionnaires administered were answered with 83.33% response rate in each case. 17 out of 20 questionnaires were answered at Aboduam/Bosomoiso resulting in 85.00% response rate. Total response received was 106 out of 120 questionnaires with 88.33% response rate. In all cases, the female response exceeded the response received from their male counterpart. This was depicted in among the frequency tables included under demographic analysis of the study.

4.1.0 Demographic analysis of the respondents

This paragraph discussed variables such as sex, age education and income status of the respondents.

4.1.1 Sex distribution of respondents

Table 4.2: Gender of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	31	29.2	29.2	29.2
	Female	75	70.8	70.8	100.0
	Total	106	100.0	100.0	

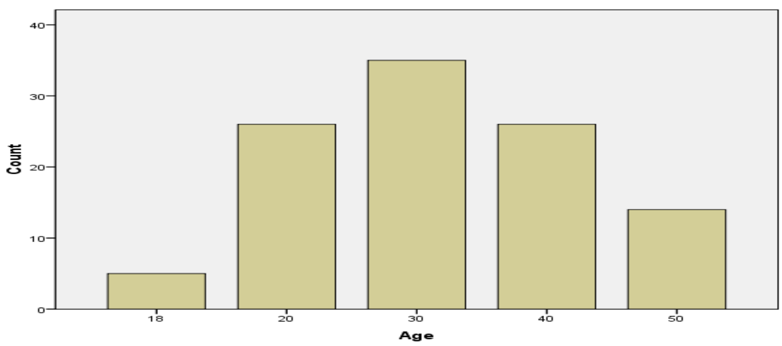
Source: Survey by Researcher – May 2011

The information in the table goes to confirm the view expressed by earlier writers that women are the major participants and thus beneficiaries of microfinance activities. This, according to Park and Ren (2001) and which views were re-echoed by Karlan and Goldberg (2007), women are involved than men because it is believed that women suffer poverty more than men and are the most vulnerable sex as far as poverty is concerned.

4.1.2 Age distribution of respondents

The ages of the respondents range from 18 to 54 and this was captured in the frequency statistics that followed this discussion and was represented in the graph below:

Figure 1. Age of the respondents



The graph above presents the age distribution of the respondents captured in the frequency statistic table below. The age 20 implied respondents whose are 20 years and above but below 30 years; the same applied to ages 30, 40 and 50. Respondents who are within the 30 years bracket constituted 33.0% of the total respondents. Those in the 20 and 40 year categories were 24.5% of the total respondents each. These three sets representing 82% of the total number of people interviewed indicated that these age groups are people grossly involved with the microfinance institutions and are those who are using microfinance in their determination to overcome poverty. This is the age that is trying to turn things around to secure a brighter future and thus is exploring all avenues to get themselves means of raising some capital for investment and to empower themselves economically. The youth, those who are 18 and the adult those at 50 years and above, were represented by 4.7% and 13.2% respectively. This discussion was supported by the perception of the people about microfinance services.

Table 4.3: Age distribution of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18	5	4.7	4.7	4.7
	20	26	24.5	24.5	29.2
	30	35	33.0	33.0	62.3
	40	26	24.5	24.5	86.8
	50	14	13.2	13.2	100.0
	Total	106	100.0	100.0	

Source: Survey by researcher

4.1.3 Education Background of the respondents

The educational characteristic of the respondents was analysis against sex and age in other to assess the relationship between them. This analysis was depicted in the table that followed.

Table 4.4: Educational background of the respondents

Educational Background			Age 18	20	30	40	50	Total
GCE/WASSCE	Sex	Male	1	3	4	4	0	12
		Female	1	9	11	9	3	33
	Total		2	12	15	13	3	45
College	Sex	Male	0	1	1	2	0	4
		Female	1	2	0	0	2	5
	Total		1	3	1	2	2	9
University	Sex	Male		3	5	0	1	9
		Female		0	0	1	0	1
	Total			3	5	1	1	10
Others	Sex	Male	0	1	4	1	0	6
		Female	2	7	10	8	8	35
	Total		2	8	14	9	8	41
6	Sex	Female				1		1
	Total					1		1

Source: Survey by Researcher – May 2011

Education level is one of the indicators of Poverty. From the data collected and displayed in the above table it was realized that 45 of the total respondents were able to educate to the GCE/SHS level but could not go further. Various reasons could be deduced one of which is the existing and rather pervasive low income and poverty. 42 people recorded in the category ‘others’, implying education lower that the secondary school level or none at all, which number was dominated by women. Those who went beyond the secondary school level were only 19 of the total number covered. In all cases, female education was poor and the bulk of the people were in the age range of 20 to 40 years; a range outside the school-going age in Ghana. Again, the people typically do not accord education such a priority hence the low attendance or desire to go further.

4.2 Products of the MFIs in the district

There are six institutions providing services in the Sefwi Wiawso District. Notably, all these institutions are engaged in ‘susu’, Savings and loans and micro credit activities with minor cases of providing agro-based credit – supplying farm inputs on credit to farmers.

The operations are individual scheme with a little to do with groups schemes. The explanation obtained confirmed the assertion by Besley and Coate (1995) that despite the advantages of lending groups some members of the group may fail to pay the loan. This strategy the institutions are using was further supported by Montgomery (1996) who stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. They also provide counseling and in rare cases some training to the customers.

These institutions reach their customers by three distinct means – by local radio, by friends of customers and through mobile bankers – employees of the microfinance companies. Many of the customers explained that they choose these institutions because of the convenience they offer through their mobile bankers. They also mentioned the fastness of the loan processing mechanism availability of such facilities to all customers once he/she is the registered member of the institution and loan criteria was satisfied.

4.3 Microfinance outreach

Microfinance outreach is about how many poor people are able to have access to loans from the service operators, how many poor people are getting their living standards improve through the assistance from these institutions. It defines the combination of financial and social intermediation that the microfinance offers mostly in the short term. Ledgerwood (1999) wrote that the demand and supply of this service determines the microfinance operations. In the context of this study, outreach implied the coverage of the institutions covered in the research. The statistic below detailed the institution and the number of branches as well as their clientele base.

Table 4.5(a): Number of customers as at 2010

NAME OF INSTITUTION	CLIENTELE		TOTAL
	MALE	FEMALE	
Express Cooperative Credit Union	367	699	**1066**
Supreme Saviour 'susu' and Loans	605	750	**1355**
GPRTU Cooperative Credit Union	3,195	5,050	**8245**
Sefwiman Community Credit Union	793	1,824	**2617**
	4960	**8323**	**13283**

Source: Survey by Researcher

The table above gave us the coverage of the four institutions that answered our questionnaire. These institutions have few branches or none and serve equally few communities in the Sefwi Wiawso district. This is represented in the table below:

Table 4.5(b) Number of branches and years of operation

NAME OF INSTITUTION	NUMBER OF BRANCHES	YEARS OF OPERATION
Express Cooperative Credit Union	1	2
Supreme Saviour 'susu' and Loans	1	7
GPRTU Cooperative Credit Union	2	6
Sefwiman Community Credit Union	2	10

Source: Survey by researcher – May 2011

It is the GPRTU and Sefwiman banks that were able to open a branch in addition to their head offices thus having two operation offices. Though Supreme Saviour Co-op ‘susu’ and Loans had been in operation for seven (7) years it has no other operation office apart from the one located at Sefwi Dwenase. The inability to operate or open branches could attributed to the age of the MFIs and more essentially to the qualification, skill and experience of their respectively managers. From the data gathered and as represented below the managers hardly acquired a university degree and or professional accountancy qualification of any kind.

Other information indicated that so far GPRTU dominated with five communities. This tells that there is more to done to reach the bulk of the people who are still languishing in poverty and are yet access the life changing assistance of microfinance. From the table Express Co-operative Credit Union recorded the least clientele but this company is very new; operating just two years. In total, the statistic proved that women are more vulnerable in poverty and suffers most and thus their great representation in the figures.

The figures in table 4.5(c) below indicated that the institutions are reaching many more customers through, essentially, their mobile bankers who make personal contact with both existing and potential customers. The institutions recorded increasing data from one year to another. The year to year increase in the customer base has positive relation with the number of borrowers recorded in all institutions. Average loan size reported range from ¢300.00 to ¢1,500.00 from 2007 to 2010 with average deposit recording ¢58.00 to ¢203.00 over the same period.

Table 4.5(c): MFIs and their four-year operation statistics (2007-2010)

EXPRESS CO-OPERATIVE CREDIT UNION				
Microfinance Outreach	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Number of branches			1	1
Total no. of Borrowers			100	136
Total no. of Depositors			201	238
Average Loan Size (¢)			¢ 300.00	¢ 800.00
Average Deposit size (¢)			¢ 100.00	¢ 120.00
SUPREME SAVIOUR 'SUSU' AND LOANS				
Microfinance Outreach	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Number of branches	1	1	1	1
Total no. of Borrowers	400	578	800	1223
Total no. of Depositors	625	800	1125	1490
Average Loan Size (¢)	¢300.00	¢1,000.00	¢1,200.00	¢2,500.00
Average Deposit size (¢)	¢80.00	¢110.00	¢125.00	¢140.00
GPRTU CO-OPERATICE CREDIT UNION				
Microfinance Outreach	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Number of branches	1	1	2	2
Total no. of Borrowers	430	640	1200	1500
Total no. of Depositors	1627	3429	5421	8245
Average Loan Size (¢)	¢600.00	¢2,320.00	¢2,675.00	¢3,384.00
Average Deposit size (¢)	¢58.00	¢58.00	¢80.00	¢203.00
SEFWIMAN COMMUNITY CREDIT UNION				
Microfinance Outreach	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Number of branches	1	1	2	2
Total no. of Borrowers	37	54	106	251
Total no. of Depositors	1402	2.15	2390	2617
Average Loan Size (¢)	¢300.00	¢800.00	¢1,200.00	¢1,500.00
Average Deposit size (¢)	¢65.00	¢88.00	¢105.00	¢115.00

Source: Survey by Researcher

The interesting size of the operation was that customers save daily or weekly depending on their individual strength and these monies are collected by the mobile bankers on their daily or schedule visits. This gave the convenience the customers were encouraged about as they do not need to queue in banking halls waiting for their turn to deposit or withdraw from their accounts.

4.4 Educational qualification of management

Management of an institution describes the culture and the future of that institution as the management style reflects the vision and mission of the enterprise. It is therefore a prerequisite for the manager to have the relevant qualification and the capability appropriate to ensure that the future of the entity does not become bleak. The educational background of the management of the MFIs covered were cross tabulated and presented as below.

Table 4.6 Educational Background of MFI Managers - Cross-tabulation

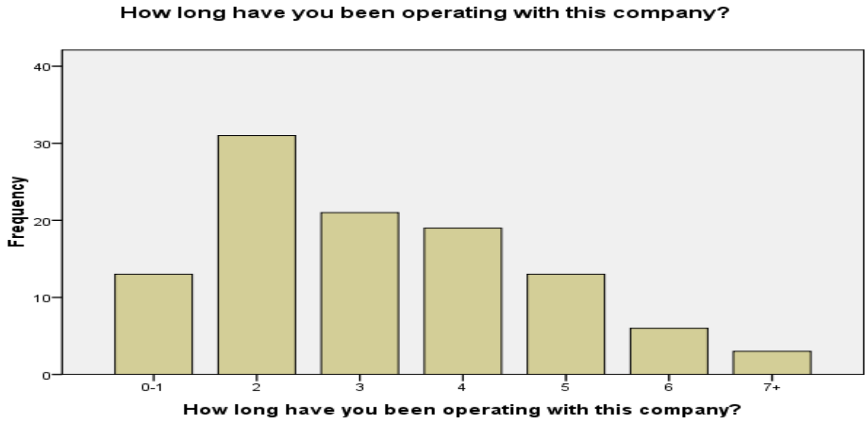
Educational Background			Current Position in the company: Managing Director	Current Position in the company: Branch Manager	Total
GCE/WASSCE	Name of institution	Supreme Saviour 'susu' & Loans	1	0	1
		Sefwiman Community Credit Union	0	1	1
	Total		1	1	2
Other(S)	Name of institution	Express Co-operative Credit Union	1		1
		GPRTU Credit Union	1		1
	Total		2		2

Source: Survey by researcher – May, 2011

The table depicted the educational background of the institution managers. There were four institutions with managers of two institutions had only GCE/WASSCE qualification and the other two classified as 'others' managed to obtain Diploma from the Polytechnics.

4.5 Period of saving with MFIs

Figure 2



Many of the respondents have been operating with the MFIs in a period ranging between 0 to 7 years. This is depicted in the graph above. From the frequency statistic (appendix 3) represented by the above graph 75 respondents representing 87% saved for 2 and more years with 13% saving for less than one year. However, the dominant number of years these people have been with the institutions covered was two years and women form the majority of the membership in all categories. Though the graph indicated that the majority of the respondents saved for two years it is relevant to mention that age has nothing to do with how long the customer has been with any of the institution. The age factor was analyzed with how long the customer has been dealing with the MFI in the following table.

Table 4.7 presents relationship between age and period of saving with MFIs.

(a) ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	1	.019	.015	.902[a]
	Residual	130.858	104	1.258		
	Total	130.877	105			

(a) ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	1	.019	.015	.902[a]
	Residual	130.858	104	1.258		
	Total	130.877	105			

a. Predictors: (Constant), Age

b. Dependent Variable: What was your average income per month after you took the loan?

The Anova analyzed how age and length of operating with the banks vary and the significant result is presented in (c) below.

(b) Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.819	.336		8.385	.000
	Age	.012	.100	.012	.123	.902

a. Dependent Variable: What was your average income per month after you took the loan?

(c) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.190[a]	.036	.027	1.509

a. Predictors: (Constant), Age

This regression result demonstrated that there is weak relationship between the age of the customer and how long the customer has been with any of the MFIs. This result is acceptable because age does not determine the welfare of an individual; education and training and employment do.

4.6 Contribution of MF to the economic livelihood of the people

It data collected that from the respondents largely that microfinance was bringing some smile to the face of the poor. Many of the respondents who previously hardly get themselves engaged in meaningful economic activities than to labour for others can now boast of being on their own and living lives they value. Four main areas of help which was of interest to this research were presented in the frequency table below.

Table 4.8: Way(s) in which microfinance have been of help

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Employment	5	4.7	4.7	4.7
	Education	24	22.6	22.6	27.4
	Farm Input	33	31.1	31.1	58.5
	Small Business	44	41.5	41.5	100.0
	Total	106	100.0	100.0	

Source: Survey by Researcher

It is deductive from the analysis in the frequency table above that provision of farm input and engagement in small business were the major areas the people are experiencing tremendous improvement in their lives. Farm input attracted 31.1% represented by 33 respondents as against a high record of 41.5% (44 respondents) recorded by small businesses. Education was not given much attention and thus recorded 22.6% representing 24 respondents. A few people gained employment as well; as low as 4.7% (5 people) of the 106 respondents contacted. According to the findings, microfinance assisted the people by giving them short term loans with repayment period ranging between 6 to 18 months. The loans were applied mainly in four ways as depicted in the table that followed. The little attention given to education could be attributed to the age distribution of the respondents as noted earlier. Many of them were 30 years and above and were people who had little or no education themselves, many of whom were women. The table below re-echoed the analysis presented.

Table 4.9: Fund usage and level of loan. Cross-tabulation

	Level of loan granted					
	¢500	¢1,000	¢1,500	¢2,000	¢2,500+	Total
Employment	0	4	1	0	0	5
Education	2	15	4	2	1	24
Farm Input	0	10	8	9	6	33
Small Business	4	10	12	9	9	44
Total	6	39	25	20	16	106

Source: Survey by Researcher – May, 2011

The cross-tabulated table above indicated the level of loan accessed variously and how these facilities were applied and it was again realized that small businesses and farming activities received much attention than education and employment. It was observed that generally, the people do not prefer going to school and thus the attention to education as captured by this research revealed this real situation. Education therefore, being self or child, recorded only 27 respondents of which 23 was for child education. The frequency tables (a) and (b) below presented information on both employment and education respectively. A total of 77 people involved in farming and small businesses were recorded. The issues relating to employment and education are represented tables (a) and (b) below.

Table 4.10: Loan and employment and education

(a)

		Employment, who benefitted	How microfinance benefit you
N	Valid	5	106
	Missing	101	0
Variance		.300	.829

Source: Survey by Researcher – May, 2011

(b)

		Education, (self or child)	Children: number benefited
N	Valid	27	23
	Missing	79	83
Variance		.131	.538

Source: Survey by Researcher – May, 2011

4.7 Loans processing and collateral

The research interview revealed that most loans are obtained as soon as applications are tendered with little delay in few cases. The processed mentioned include: receipt of loan application, checking of account status, check the amount requested and review the application to ascertain the need for collateral. These are tabulated as ***Frequencies of Loan amount and collateral offered.***

Table 4.11 (a) Loan Amount

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	¢500	4	3.8	3.8	3.8
	¢1,000	37	34.9	34.9	38.7
	¢1,500	29	27.4	27.4	66.0
	¢2,000	20	18.9	18.9	84.9
	¢2,500+	16	15.1	15.1	100.0
	Total	106	100.0	100.0	

Source: Survey by researcher – May 2011

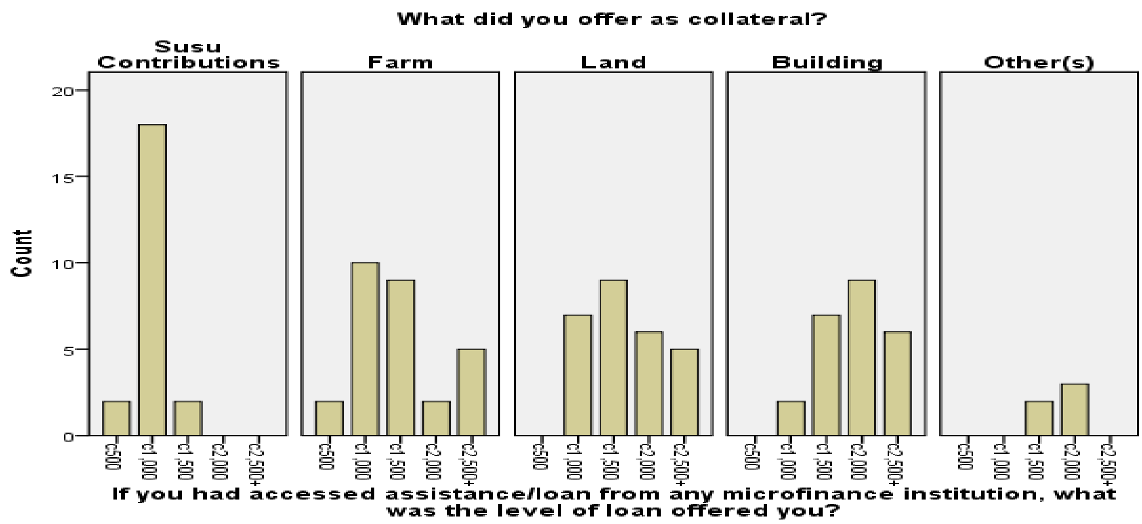
Table 4.11(b) Collateral offered

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	‘susu’ Contributions	22	20.8	20.8	20.8
	Farm	28	26.4	26.4	47.2
	Land	27	25.5	25.5	72.6
	Building	24	22.6	22.6	95.3
	Other(s)	5	4.7	4.7	100.0
	Total	106	100.0	100.0	

Source: Survey by Researcher

The frequencies of the above tables (a) and (2) indicate frequencies of various levels of loan obtained and facilities committed as collateral to access the loans. This information was represented in a bar graph that follows.

Figure 3: Loan amount and collateral offered for such loans



The graph above present the level of loans granted to customers and what they offer as collateral for such loans. The graph presented indicated that collateral is demanded for loans above ¢500.00. Items of collateral are cocoa farm, land and building. The savings the customers kept with the institutions serve as a primary guarantee for any loan. Most of the customers intimated that sometimes, depending on the level of loan demanded, two different items of collateral is demanded. This practice contradicted the earlier assertion made by Christen *et. al.,* (2004) in their definition of the microfinance concept. They intimated lack collateral as one of the reasons why poor people could not access loans from the commercial banks. In addition, they mentioned less education, no real experience and high cost of transactions of small loans and stressed that this led to the emerging market for microfinance to assist the poor. However, from the cross tab above all loans attracted some collateral in the form of saving, farm, land, building or combination thereof. If the poor should offer building for a loan it goes to say that the poor is still being suppressed and deprived of assistance to improve his livelihood.

However, the convenience and flexibility with which the microfinance institutions operate encouraged the customers to go any length to satisfy all conditions necessary to obtain loans to finance their respective ventures once it is perceived to be economically viable transaction.

4.8 Uses of the loans

The cross tab presented below presents the result of loans taken by customers and the uses to which these loans were put to. The cross tab relates the amount of loan taken to various economic activities it was used to financed.

Table 4.12: **How the customers use the loans**

How beneficial loan has been. Cross tabulation

Level of loans obtained	Economic benefits of loans: Start business	Grow business	Revamp existing business	Acquire farm inputs	Finance education	Total
¢500	3	1	0	0	0	4
¢1,000	10	7	13	3	4	37
¢1,500	3	6	16	1	3	29
¢2,000	4	3	8	2	3	20
¢2,500+	0	8	7	1	0	16
Total	20	25	44	7	10	106

Source: Survey by Researcher

This result demonstrated that many of the people are engaged in business activities and most of the loans taken were used to start, grow or revamp an existing business. Altogether, 89 people were into business and farmers were as low as 7 with education receiving 10. As much as 44 people indicated using their loans to revamp their rather collapsing businesses. The revamping of this large number of various businesses indicated and attested to the fact already presented in the earlier paragraph that lack of education, experience and training make people poor; and this result again emphasized the point that education is not given priority. Many of the respondents who indicated education as a reason for taking loans are people who had secondary education or their university education and are therefore expressing how microfinance had helped them go through their various programmes.

Sex categorization of the above indicated that women dominated the loan creditors with loans ranging between ¢1,000.00 to over ¢2,500.00. This was presented in a crosstab statistics as follows.

4.8.1 Sex categorization of loan creditors

Table 4.13 Cross-tabulation

		Loan accessed or not		Total
		Yes	No	
Sex	Male	31	0	31
	Female	73	2	75
Total		104	2	106

Source: Survey by researcher – May, 2011

4.9 Other uses of the loans

The loans accessed by these customers were not only applied to the activities depicted in the cross tab above. Interviews revealed that there were multiple applications of the facility in some cases such as situations where some of the respondents indicating that the loan was used for both farm input and education, business and education and so on. Some other uses of the loans were captured in the following table.

Table 4.14: Other application of the loans

Cross-tabulation of loan and health and funeral

	For others, indicate the purpose.		
	Health	Funeral	Total
¢500	2	0	2
¢1,000	16	4	20
¢1,500	16	2	18
¢2,000	8	4	12
¢2,500+	5	3	8
Total	47	13	60

Source: Survey by Researcher – May, 2011

The result presented 60 cases of other uses which might be done in combination with those stated earlier. Health received a greater concern with 43 cases as against funeral. Of course health promotes wealth as a sound mind is found in a sound body. Poverty makes people sick of every disease due to starvation and inadequate attention to personal hygiene.

4.10 Length of membership and loan access

The research interviewed revealed the customers register and saved for a minimum of three months as the minimum requirement to qualify for loans. The correlation analysis below depicts how such period of savings relate with the number of times a customer access loans.

Table 4.15: Number of years and rate of loan access

Correlations

		How long a customer has operated with the MFI	Number of times loans were accessed under the MF scheme
How long a customer has operated with the MFI	Pearson Correlation	1	.308**
	Sig. (2-tailed)		.001
	N	106	106
Number of times loans were accessed under the MF scheme	Pearson Correlation	.308**	1
	Sig. (2-tailed)	.001	
	N	106	106

***. Correlation is significant at the 0.01 level (2-tailed).*

The results of the interview indicated that the respondents covered operated with the banks between 0 to 7 years. The correlation analysis presented above indicated a strong relationship between the number of years a customer has been with an institution and number of times such customer accesses loan from the microfinance with a significance level of 0.01. This strong correlation was not a surprise because for many of the respondents their financial needs could only be satisfied by microfinance and joining such an institution to enable them to access finance to turn their lives around should not be a problem. Again, the availability and easy accessibility of such loans, the low interest rate as compared to the banks and the instant attention are encouraging factors for customers to take loan as soon as an earlier one is paid.

4.11 Loan repayment

The period for loan repayment ranges from 6 months to a maximum of 2 years; depending on the level of loan accessed. Loan repayment guarantees further access to the facility as this determines how creditworthy a customer is. The amount of loans and the repayment period generally granted customers are depicted by the cross tab statistic set out below.

Table 4.16: Loan amount and repayment

Crosstabulation

	Loan repayment period			Total
	6 months	1 year	18 months	
¢500	4	0	0	4
¢1,000	12	24	1	37
¢1,500	5	13	11	29
¢2,000	0	1	19	20
¢2,500+	0	0	16	16
Total	21	38	47	106

Source: Survey by Researcher

This table cross tabulated the loan amount given to customers and how long it takes a customer or the maximum time period within which the loans are paid.

From the statistics in the cross tab, it was realized that loans between ¢1,000.00 and ¢1,500.00 are generally spread between 6 to 18 months. This depends on the collateral offered for such loans. Where the primary collateral which is the savings of the customer is the only guarantee it was demanded that the loan facility is paid within 6 months; such was the case for all loans in the value of ¢500.00. Loans that attract repayment beyond one year are mostly those that exceed ¢2,000 to as much as ¢25,000.000. However, the majority of the customers are people who took loans not exceeding ¢1,500.00. This may be due to the size of their business, lack of appropriate or commensurate collateral to enable them to access larger amounts. The small size of this loans again attest to the fact that microfinance concept was meant for the poor who according to Harper (2003) are helped to access cheap credit loans with the savings of the member. The amount of loan and the repayment period therefore strongly correlated and confirm literature that microfinance provides short term funds to the poor to gradually help to empower them economically to improve their livelihood.

4.12 Microfinance and employment

It is hoped that employment generates income and therefore reduces poverty. But employment relates well with education and training. If the poor are classed as those with little or no education and training or skills, then it goes to confirm that the only way the poor can raise some capital to engage themselves in any economic venture that would improve their living standards is definitely through microfinance.

From the data gathered, much has not been revealed about formal employment but from the number about only 10 people did not use the loans for any economic venture but for education which in itself equips individual for employment. Thus, the data portrayed that 96 of the respondents gain self-employment through the microfinance. Those who are formally and directly employed by the institutions were 5. However, data from the institutions also indicated much has not been achieved through formal employment. The statistic in the following table depicted the number employed by the four institutions covered.

4.13 Number of youths employed by the institutions

Table 4.17: Youths employed by the MFIs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10	1	25.0	25.0	25.0
	20	2	50.0	50.0	75.0
	30	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

Source: Survey by Researcher

The frequency statistic presented in the table indicated a total of 80 youths employed by the institutions in their catchment areas. This small number is necessary because the institutions themselves are young with very few or no branch(es) and except for the mobile bankers who makes direct contact with the customers, hardly four (4) people are recorder to have been in the office permanently.

4.14 Microfinance and income

From the earlier discussions, various uses were made with microfinance assistance – many of the respondents either used these monies to start new business, grow existing business or revamp an existing but collapsing business. Others used this to acquire agro input while the rest used these monies for education and other reasons which largely are combination of the above. On the whole all respondents have achieved an improvement in income over the period. This was obtained from the survey conducted and presented in the cross tab that follows with frequency statistics.

Table 4.18: Customer income level before and after accessing microfinance loan.

Cross-tabulation

		Average income per month after the loan					Total
		¢ 250	¢ 300	¢ 400	¢ 500	More than ¢500	
Average income per month before the loan	¢50	13	7	13	2	0	35
	¢100	3	12	15	13	1	44
	¢150	0	2	8	11	3	24
	¢200	0	0	0	1	0	1
	More than ¢200	0	0	0	1	1	2
Total		16	21	36	28	5	106

Source: Survey by researcher – May, 2011

The cross tabulation of customer income status before and after joining and accessing loan from microfinance was analyzed in the cross tab above. Thirty-five (35) respondents whose incomes were ¢50.00 before registering and saving with microfinance have now an improved income over ¢250.00 and more. Forty-four customers have achieved incomes over ¢250.00 and above as against the ¢100.00 per month they indicated before joining the microfinance. Generally, as depicted by the cross tab all income levels have increased tremendously. The minimum monthly average was ¢250.00 after all respondents accessed microfinance. This substantiated the literature on how microfinance promotes increased income and makes the poor economically and financially stable and capable and how this translates into improve health and food security of the poor. A further proof of rising income due to microfinance assistance is provided by the correlated table below.

Table 4.19 Amount of loan accessed and average monthly income

Correlations

		Amount of loan accessed	Average income after loan
Amount of loan accessed	Pearson Correlation	1	.606**
	Sig. (2-tailed)		.000
	N	106	106
Average income after loan	Pearson Correlation	.606**	1
	Sig. (2-tailed)	.000	
	N	106	106

Source: Survey by researcher – May, 2011

**. Correlation is significant at the 0.01 level (2-tailed).

It would be noted that there is a strong correlation between the amount of collected and an improvement in income for all customers. This implies that all customers experienced sound financial success due to the microfinance assistance they sought.

The frequency statistics corresponding to the above discussions are presented as follows:

Table 4.20: Average monthly income before (a) and after (b) loans are accessed.

(a) Average monthly income per month before the loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	¢50	35	33.0	33.0	33.0
	¢100	44	41.5	41.5	74.5
	¢150	24	22.6	22.6	97.2
	¢200	1	.9	.9	98.1
	More than. ¢200	2	1.9	1.9	100.0
	Total	106	100.0	100.0	

(b) Monthly average income after you took the loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	¢ 250	16	15.1	15.1	15.1
	¢ 300	21	19.8	19.8	34.9
	¢400	36	34.0	34.0	68.9
	¢ 500	28	26.4	26.4	95.3
	More than ¢500	5	4.7	4.7	100.0
	Total	106	100.0	100.0	

Source: Survey by researcher – May 2011

In comparing the two frequency tables (a) and (b), it was realized that individuals moved from a low income bracket to a higher income brackets. Previously, the percentage of customers who monthly average income was between ¢50.00 and ¢200.00 was 98.1%. This great number is now well above bracket of ¢250.00 average income per month. This indicated that there was a 100% experience in increase in monthly average income by all respondents who accessed loans from the banks.

4.15 Microfinance and Food security

Food security is one of the criteria used to measure poverty therefore any attempt to reduce poverty must be directed towards ensuring food availability to enable the poor to enjoy full complement of food. The data collected was not meant basically to look at the consumption pattern of the respondents rather to investigate how microfinance helps to reduce poverty. It was however implied that the parameters chosen included food security. From the foregoing analysis it was realized that majority of the respondents gain some employment and their income level have improved considerable and so therefore their food consumption pattern has also changed. It also goes to say that many can now afford three square meals every day; with enough food on the table they can now live the life they value.

4.16 Microfinance and health

A few respondents indicated that they used the funds so obtained to solve some health problems. Again it can be inferred from the earlier discussion on food that having experienced improve income and achieved food security through microfinance the respondents are now prepared to meet their health needs. There is no more starvation and disease. Financial stability means solution to all rather minor problems that inflict the health and safety needs of the poor.

CHAPTER FIVE

CONCLUSION, SUMMARY AND RECOMMENDATION

5.0 Introduction

The last chapter of this study was intended to address or look at the objective set for this study vis-à-vis the findings discussed in the earlier chapter as well as recommendations based on the research findings.

5.1 Conclusion

Addressing poverty reduction is the concern of all countries the world over. Poverty was various defined by many authors and literature indicated certain criteria against which poverty can be measured. However, poverty means conditions that deprived people from living life the way one would have loved to. What comes to mind when poverty is mentioned most often is hunger and starvation, poor health, lack of access to basic amenities, financial instability and widespread unemployment. These factors were the very one this study used to measured whether MFI activities are helping to reduce poverty in the Sefwi Wiawso district who are amidst abundant natural resources yet grappling with poverty.

The main objective of the study was to identify the major activities of MFIs operating in the Sefwi Wiawso district and the impact of such activities on the economic livelihood of the people. Specifically, the study explored the following objectives:

1. identifying the operation mechanism and specific activities of MFIs in the Sefwi Wiawso district;
2. ascertaining how MFIs are contributing to poverty reduction in the district; and assess how accessible the MFIs are to the people.
3. whether the Sefwis have fair access to the services of these microfinance institutions.

The research was limited to MFIs activities in the Sefwi Wiawso district. It specifically focused on the impact of MF on improving economic livelihood and therefore poverty reduction in the district. To achieve this result the study adopted qualitative approach. Respondents were both MFIs and their customers and these were selected purposively and through simple random sampling respectively. Data was gathered through questionnaires and oral interview in six major towns where the activities of the MFIs are widespread and these data was analyzed by descriptive statistic of SPSS from which all conclusions were drawn.

The study was conducted among the principal town of the area and thus may be limited in terms to the findings of these areas which may not adequately represent views of the majority who are staying in the remotest communities of the district. However, the trend of data collected and the results of the study are adequate enough to conclude that microfinance is a tool for poverty alleviation in the Sefwi Wiawso district.

5.2 Summary major of findings

The study revealed that the MFIs in the district engaged mainly in ‘susu’, Savings and loans and micro credit activities. To qualify for assistance in terms of loan a customer is expected to operate savings account for not less than three consecutive months. Various level of loans are given ranging from ¢200.00 to ¢25,000.00. The research also found out that these customers are engaged variously in small businesses and farming.

In regards of demographic factors the study revealed that women form the majority of the customers of microfinance and this confirmed many of the views captured in the literature review in chapter two of this study. Women by this research were more than twice the men indicating the amount of burden women carry under poverty and how they struggle exploring all avenues to extricate themselves and their families from poverty. The study also demonstrated that poverty is not respecter of age and therefore age does not play any role in determining accessing credit from the microfinance institutions. Customers captured by this research fell within 18 to 54 years with ages over twenty-five (25) to forty-four (44) being the greatest beneficiaries of microfinance. Education of the respondents was generally poor.

Regarding businesses, many of the respondents used these monies either to start a new business, grow an existing one or revamp their businesses while farmers used theirs for agro inputs. Though the loans are given for very short periods – 6 months to 18 months many of the customers accessed loans a number of times. Again the results showed a positive relationship between the amount of loan taken and how long an individual has been with these institutions as well as level of improvement in income.

The research also found out that the interest rate charge by the institutions was high but the customers preferred the MFIs to the banks because of the convenience, flexibility and the manner they relate with their customers. The instant attention to their loan needs was also highlighted.

Employment has increased due to microfinance activities in the district. Though these were largely informal many customers got their financial flex from the loans they obtained and this has resulted in increased income generally.

The results of the study also demonstrated that collateral was offered for all loans granted which to some extent contradicted the literature and the overall concept of microfinance evolution and operations. All the same, the customers made good uses of the loans and many have achieve success through increased income, growth in their businesses, increased yield and improved health by all dimensions.

In conclusion, this study showed that microfinance programmes have the potential to reducing poverty especially in enhancing the role of women and their bargaining power.

5.3 Recommendation(s)

This study was conducted within a very short time frame and therefore could not cover most communities to assess how microfinance affected life in the entire district. However, the data gathered portrayed a peculiar trend which was hoped to be replicated in all other areas of the district. Based on the findings stated above the following recommendations are important.

That ‘Susu’ customers must also be considered qualified for loans. These formed the larger number of customers and their ‘Susu’ contribution could also be seen as primary collateral for any loan as applied to savings customers.

Interest rate charge by the MFIs is high and should be reduced to induce many customers to take bigger loans; the 20% being charged for 6 months is on the high side. Interest rates should be tapered for loyal customers to encourage them and to enable them expand their ventures.

Collateral for all loans is a scare to many customers and it is the reason why many customers remained on the ‘Susu’ list. Collateral other than savings could be demanded when loans exceed for instants ¢1,500.00. Such move will enable others who do not have anything to offer as collateral and those on ‘susu’ list to access loans to enable them engage in some economic activities to increase their income and strengthen their financial flex.

Loan repayment period is too short – 6 months minimum and one year maximum – and it put such pressure on the debtors. This period should be extended to range between 1 – 3 years to give the customers some room to make maximum use of the fund to raise enough income to be able to pay the principal and the interest.

Presently the operations of the MFIs were limited to the major areas of the district. The MFIs need to adopt other means apart from the direct contact being used to reach majority of the people. This will enable their services to be felt by the 'hardcore' poor in the district. This the MFIs can do by opening more branches to serve the communities that are far from their present locations.

There is the need for training and skills development for both customers and the management of the MFIs. Customers needed to be taught record keeping and business development skills to able to manage their respective ventures for sustenance while management of the MFIs needs managerial capabilities to manage and control. This will enable them manage branches if opened. The inability to manage is attributed to the level of management education and the limited number of branches being operated so far.

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