# MICROFINANCE IN RURAL GHANA: A VIEW FROM BELOW

**BY**

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**A THESIS SUBMITTED TO THE UNIVERSITY OF BIRMINGHAM FOR THE DEGREE OF DOCTOR OF PHILOSOPHY**

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**UNIVERSITY OF BIRMINGHAM**
**SEPTEMBER 2010**

# ABSTRACT

The thesis investigates, from a contextual and user perspective, the implementation processes of microfinance interventions and the effect of the implementation processes on households and businesses. The thesis' central argument is that microfinance discourse has neglected the perspective of microfinance users and this can negatively affect microfinance interventions as development tools. The study examines two microfinance interventions, Nsoatreman Women Empowerment Programme and Sinapi Aba Trust, in Nsoatre, a rural community in Ghana. Data for the study is from secondary sources, 26 interviews and 100 questionnaires. The study was guided by the philosophical ideas underlying the Sustainable Livelihood Approach and the Interpretive Approach. Using qualitative, cross-tabulations and ordinal logistic regression, the analysis found that the microfinance institutions studied essentially employ top-down approaches and that the perception of microfinance as non-paternalistic is not supported by this study. The mode of group formation has significant ramifications on subsequent group activities and peer monitoring played a limited role in mitigating moral hazard. Service users exhibited noticeable lack of knowledge on intervention activities. Microfinance interventions contribute to household consumption more than it does to household asset accumulation. Poorer service users reported more household and business benefits. The findings suggest a reappraisal of the design of microfinance interventions, especially in rural areas.

# Dedication

This work is dedicated to my dearest, Theresa

and to the memory of my father,  Major J.K. Yeboah (Rtd)

## ACKNOWLEDGEMENT

My gratitude first of all goes to the Almighty God for his protection and guidance throughout my academic endeavour in Birmingham. My very special gratitude goes to the forbearing and indefatigable Dr. Hubbard, my supervisor, whose unwavering confidence in me and his excellent supervision has made the completion of this thesis possible. His concern for my academic as well personal wellbeing is what has sustained me through this arduous exercise. My appreciation goes to my co-supervisor Dr. Leurs for his insightful comments and guidance. I also wish to thank staff of the department for their contribution to the thesis during the department seminars. I am very much grateful to the International Development Department for the financial support I received for this programme.

I wish to thank the management, staff and service users of Sinapi Aba Trust and Nsoatreman Rural Bank for their assistance and cooperation during the fieldwork period. My appreciation goes to Mr. Sarpong of the Apex Rural Bank and staff of GHAMFIN for their support during the data collection stage of the thesis.

I wish to acknowledge the contribution of these special people to my academic career: Mr. J.Y. Appiah, Ms. Gifty Appiasi, Ms. Paulina Hamilton, Mr. Bobby Micah Jnr., and Mr. Kyeremeh. I also acknowledge the critical and insightful contributions of my research colleagues to this thesis.

Finally, I say thanks to my family members, Yaw Hinneh, Manu Darteh, Akoto, Ken, Mary, Johnson Kyere, Kofi Ameyaw and Adwoa for their prayers and support during this academic endeavour.

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## LIST OF ABBREVIATIONS

ARB- Association of Rural Banks
ASA-Association for Social Advancement
BAAC- Bank for Agriculture and Agricultural Cooperatives
BOG- Bank of Ghana
BRAC-Bangladesh Rural Advancement Committee
BRDB-Bangladesh Rural Development Board
BRI-Bank Rakyat Indonesia
CASHPOR-Credit and Savings for the Hard-Core Poor
CIDA- Canadian International Development Agency
CU- Credit Union
CUA- Ghana Cooperative Credit Union Association
DFID- Department for International Development
FFH-Freedom from Hunger Project
FINCA-Foundation for International Community Assistance
FNGOs-Financial Non-Governmental Organisations
ICICI-Industrial Credit and Infrastructure Corporation of India Limited
IFAD-International Fund for Agricultural Development
MASLOC-Microfinance and Small Loans Centre
NBFI-Non-Bank Financial Institutions
NCCU-Nsoatre Cooperative Credit Union
NRB-Nsoatreman Rural Bank
NWEP-Nsoatreman Womens Empowerment Programme
RCBs-Rural and Community Banks
RFID-Rural Finance Inspection Department
S&Ls- Savings and Loans Companies
SAT-Sinapi Aba Trust
SCIMP- Smallholder Crop Improvement and Marketing Project
SHARE-Society for Helping, Awakening Rural Poor through Education
UNDP-United Nations Development Programme

# CHAPTER I

# INTRODUCTION

## *1.1 Introduction and Statement of the Problem*

Microfinance has gained global acclaim as an important poverty reduction tool in many developing countries (Johnson and Rogaly, 1997; Gibbons and Meehan, 2002; Armendariz de Aghion and Morduch, 2005; Copestake, Greeley, Johnson, Kabeer and Simanowitz 2005; Bakhtiari, 2006). According to Morduch (2000), few recent innovations have held much hope for reducing poverty in developing countries as microfinance. Indeed microfinance is perceived as a crucial driving mechanism towards achieving the millennium development target of halving extreme poverty and hunger by 2015 (Simanowitz, 2002; Fernando, 2004; Arun, Imai and Sinha, 2006). Mohammed Yunus[1] even described microfinance as a human right. According to leading advocates in the field, microfinance has the capacity to efficiently and effectively provide sustainable financial services to poor households who are otherwise excluded from the conventional financial systems for lack of collateral. Casting aside the euphoria on microfinance, a sober question can be asked ‘does microfinance really reduce poverty?’

The above question has generated scores of studies that have endeavoured to ascertain whether microfinance does indeed reduce poverty. Impact assessments have been the preferred method of assessing microfinance institutions’ effect on poverty. A study by Pitt and Khandker (1998), which was reputed to be one of the most rigorous studies at its time, found positive effects of microfinance. However doubts have been cast on this study by

[1] Mohammed Yunus, a Nobel laureate, is acclaimed to be the ‘father’ of microcredit and is the founder of the Grameen Bank.

Roodman and Morduch (2009) after a review of the data employed in the study. In the last three years studies using randomised control trials have emerged as more credible means of investigating microfinance (see Giné, Harigaya, Karlan, and Nguyen, 2006; Karlan and Zinman, 2008a; Karlan and Zinman, 2008b; Karlan and Zinman, 2009). Almost all the studies share similar weakness: characteristics of service users, the context in which interventions operate and implementation processes of microfinance interventions have not been well articulated and understood. This had led to the impression of microfinance institutions and service users as being homogenous. Additionally impact assessments endeavour to assess the quantum of impact on service users but seldom investigate why such observed impacts occur.

Other studies have examined components of microfinance institutions but most of these have concentrated on individual components such as on loans, groups, interest rates and savings. Studies that assess the entire implementation process from the perspective of service users are lacking in microfinance literature. This has resulted in disjointed understanding how microfinance institutions work and affect poverty. Again like impact assessments, studies on the various components have observed microfinance interventions from the perspective of microfinance institutions rather than from users of microfinance services.

Finally, microfinance research has mainly depended on institutional designs[2] in understanding how microfinance interventions are implemented rather than how they are actually implemented. Thus these studies fail to capture the implementation gap- the difference between what was supposed to be implemented and what is actually implemented.

[2] Institutional designs refer to stated formal implementation plans of the intervention which are supposed to be put into action.

## *1.2 Aims and Objectives of the Study*

Given the problems identified in the microfinance literature, the main aim of this study is to assess the implementation processes of microfinance interventions and their effect on poverty outcomes from the perspective of service users. The specific objectives are:

1. To assess the implementation processes of microfinance interventions and their effects from the perspective of service users.
2. To assess the effect of the various microfinance components on poverty outcomes and taking context into consideration.
3. To identify the implementation gaps in the microfinance interventions studied.

## *1.3 Main Research Questions and Sub-Questions*

This study seeks to understand how microfinance interventions are implemented and how the various components of the intervention affect households and businesses of service users. In this context the overall research question of this thesis is: **how do implementation processes affect poverty reduction by microfinance in rural Ghana?** To answer the research question two main questions and sub-questions were formulated.

**I. How are microfinance interventions implemented and how do they affect activities within the intervention?**

1. To what extent are contextual factors and perceptions of service users taken into account in the design of microfinance interventions and what are the implications?
2. Are there any differences between microfinance institutions' intended and actual implementation practices and what are its ramifications?
3. What are the role and implications of microfinance interventions in group formation and dynamics?
4. How do microfinance institutions' loan activities affect service users' loan management?
5. To what extent are non-financial services relevant to service users?
6. How do service users perceive costs of microfinance and why?

**II. How do microfinance implementation processes affect poverty reduction?**

1. Do characteristics of service users and their businesses influence poverty reduction and why?
2. What are the effects of microfinance interventions on businesses and households?
3. Do group formation and subsequent activities influence poverty reduction?
4. How do loan matters affect poverty reduction?
5. Do savings facilities of microfinance institutions enable service users to reduce poverty?
6. What is the relationship between costs of microfinance and poverty reduction?

The above main- and sub-questions were formulated in section 3.3 after the review of the literature and identification of the approach that guide the research process. They are reproduced here to show the sequential flow of the research logic. The research question stated above is answered in chapters 6 and 7. Specifically, the first main research question including its six sub-questions investigates the implementation processes of microfinance interventions in chapter 6. The second main question and its accompanying six sub-questions examine the effect of the implementation process on poverty reduction in chapter 7.

## *1.4 Scope and Delimitations of the Study*

This study is concerned with how the components of microfinance interventions are implemented and how these processes affect poverty. The study focuses on microfinance interventions in a rural area in Ghana. It involves service users' perceptions of microfinance interventions' implementation processes and their effect on businesses and households of service users for the period they had been in the intervention. If data is obtained from staff and documents of the microfinance institution then it is to serve as a basis for comparison with information collected from service users or to understand certain aspects of the intervention process. The study also concentrates on microfinance interventions which have a poverty reduction focus.

The emphasis on contextuality constitutes the strength of this study but this can be a limitation with respect to generalisability of the results. The results of this study can only be strictly generalisable to the geographical area studied. To overcome this limitation, efforts will be expended at selecting a community that is typical in the region of study. Additionally, some inferences can be made to neighbouring areas that share a context similar to that of the study area because most of the microfinance interventions in Ghana have adopted versions of the Grameen model and therefore have similar modes of operation[3].

## *1.5 Justification of the Study*

The microfinance industry and research is increasingly focussing on institutional sustainability (Hulme and Arun, 2009). Strategies at ensuring the sustainability of microfinance institutions and ending their dependence on subsidies and external finance have preoccupied microfinance discourse. In ensuring the sustainability of microfinance institutions, financial sustainability[4] has assumed increasing importance in the microfinance industry and literature. The idea of striving for financial sustainability is that it is institutions which do not depend on external support or subsidies that can grow and achieve wide outreach and have the maximum impact on service users (Robinson, 2003). Bateman and Chang (2009) reject the implicit assumption in Robinson's argument that providing the poor with microfinance services will automatically result in the poverty reduction. Emphasis on

[3] Most microfinance institutions have adopted versions of the Grameen methodology: joint liability, regimented and short repayment periods, dynamic incentives among others.
[4] Rosengard (2001) defines financial sustainability as the development of products and delivery systems that meet client needs, at prices that cover all costs of providing these financial services.

financial and institutional sustainability has compromised opportunities for ensuring that microfinance interventions have the maximum effect on poverty (Simanowitz, 2002). When poverty reduction has been considered at all in microfinance research, loan repayment rates have been primarily employed as proxy for poverty reduction. Empirical evidence suggests that repayment rates may not be good indicators of poverty reduction (see Marr, 2003; Copeland, 2009). In addition to the above microfinance research rarely emphasises the perspective of the users the financial services. Impact assessments have tried to assess microfinance using objective indicators such as income which can be quite problematic, especially in the rural context in developing countries[5].

Given the above situation in the state of research in microfinance, this study is deemed important because it intends to put the understanding of microfinance implementation and its effects on households and businesses in the spotlight. The implementation process will be observed through the viewpoint of the users of the intervention and the effects of microfinance components assessed on indicators that service users deem relevant to them. In addition, this thesis will interpret its findings in the context in which the microfinance interventions are implemented. This should enable a better understanding of the microfinance processes and effects.

The study of the implementation processes and their effects on poverty reduction is essential because microfinance institutions in Ghana have mostly replicated versions of the Grameen model with very little documented knowledge of its applicability and relevance to the Ghanaian context, especially in rural areas. Mknelly and Kevane (2002) argue that lessons

[5] Assessing incomes in rural communities are problematic due to difficulties associated with trying to quantify in monetary terms the substantial subsistence and non-monetised economy prevalent in most rural economies. In addition the complex nature of rural livelihood (including seasonal fluctuations) makes the assessment of incomes from these myriad of sources difficult and prone to under- or over-reporting.

learned from Asian and Latin American experiences may not be applicable to West Africa. It is hoped that this study will illuminate the relatively unknown service users' perception of the Grameen model of microfinance, especially in rural areas.

Very few studies explicitly study microfinance interventions through the eyes of the beneficiaries (Marr, 2002, 2003; Johnson and Copestake, 2002). The 'view of microfinance from below', that is service users' perception of microfinance not only helps to fill a gap in the microfinance literature but also constitutes an ingredient for making microfinance effective as a development intervention in developing countries. It is argued that service users' demand, motivations, and the degree of their participation in the activities of interventions depend on their perception of the interventions. Microfinance interventions will become more relevant for development if perceptions of service users are taken into account in the design and implementation of microfinance interventions.

A perusal of the literature indicates that few studies, for example Marr, 2002, have examined the effect of the various the components of microfinance interventions on households and businesses of service users. Furthermore, studies that try to systematically link the components of microfinance interventions to poverty outcomes (household and business effects) from the perspective of service users and taking contextual information into consideration are fewer in the microfinance literature. Contributing to the research gap just mentioned is perhaps the most important justification for this study and an innovation in microfinance studies. The findings of this study should not only add to the literature on microfinance but have practical relevance in the microfinance industry. In other words, the findings of this thesis are expected to enhance microfinance's relevance to poverty reduction.

### *1.6 Structure of the Study*

The thesis is structured into eight chapters. Each chapter addresses certain aspects of the study and it is designed in logical sequence towards answering the research question. As an introductory chapter, this chapter provides a brief background on microfinance and identifies the research problem. Chapter I explains the aims and objectives; research questions; scope and limitations of the study; and significance and justification of the study. Chapter II reviews the state of knowledge on microfinance with the research problem in mind. It aims at ascertaining the extent of the problem identified in chapter one including identifying and narrowing research questions. The chapter assesses the strengths and weaknesses of methods which have been employed in addressing similar problems. The review also aims at disaggregating and understanding the concept of microfinance. The review of the state of knowledge on microfinance is expected to provide some methodological and theoretical pointers for this study and also clarify the identified research problem.

Chapter III presents the analytic framework of the study. Based on the research problem theoretical and methodological constructs are devised to address the research problem. The study identifies the philosophical ideas underlying Sustainable Livelihood Approach (SLA) as a guide to the formulation of research questions and analysis. The interpretive approach was introduced mainly to guide the fieldwork activities and analysis of data. The research questions were formulated at this stage and they were largely informed by the SLA. The methodological strategy employed in the study is then introduced and justified. The mixed method approach was deemed to be the most appropriate and how it will be applied in the various stages of the research process explained. Finally a model of the analytic framework is presented and explained.

Chapter IV sets out to identify the rural community and the microfinance interventions to be studied. A brief economic and political background of Ghana is presented. The chapter focuses on the financial regulatory framework of the country emphasising aspects which are relevant to microfinance. The financial regulatory framework of Ghana recognises three levels of financial/microfinance institutions (formal, semi-formal and informal). The distinction between informal and semi-formal is quite blurred and leaves a gap for the exploitation of the poor. The background of the area of study, Nsoatre, is presented next. The financial, economic and pertinent cultural characteristics are discussed. The backgrounds of the two financial institutions are then presented. While Sinapi Aba Trust (SAT) is a financial NGO purposely established to provide microfinance services, Nsoatreman Rural Bank (NRB), which operates the Nsoatreman Womens' Empowerment Programme (NWEP), is a formal banking institution.

After the identification of the microfinance institutions to be studied, the next stage was the collection and analysis of data, which is captured in Chapter V. The chapter recounts the activities and strategies employed in gaining access to respondents. The processes of data collection and their administration are also presented in this chapter. Both qualitative and quantitative data were collected. The data collection was sequential with the qualitative data collected first using semi-structured interviews. Preliminary analyses from the interviews were incorporated into the construction of the questionnaire. A lot of effort was expended to ensure that data collected were valid and reliable. Finally the chapter presents the techniques for analysing the data collected. The qualitative and quantitative data were analysed separately but were combined to answer the questions raised in the next two chapters.

Chapter VI is concerned with understanding the implementation process of the two microfinance interventions. Service users' perception of the components and implementation process forms the basis of the analysis in chapter six. The findings are interpreted in the cultural, social and economic context of the study area. The findings of the chapter reveal new insights which hitherto have not been uncovered in the microfinance literature. Chapter VII examines the effect of the components and the implementation process on poverty outcomes. Poverty outcomes refer to the effect of the intervention on households and businesses. Indicators for households and businesses were constructed from groups of variables.

Finally, Chapter VIII summarises the thesis. Significant findings under each research question are identified and discussed. In the process contribution of the thesis to the state of knowledge in microfinance is explicated. The chapter ends with limitations and suggestions for further studies.

# CHAPTER II

# THE NATURE OF MICROFINANCE INTERVENTIONS AND IMPLICATIONS FOR POVERTY REDUCTION

## *2.1 Introduction*

How have microfinance interventions been assessed? What does the extant literature contribute to the microfinance assessment debate? What methodological approaches have been used and how have these approaches impacted on findings? Chapter I presented the research problem and provided justification for answering the question. This chapter intends to answer the above questions by analysing the existing state of knowledge on microfinance with the view of clearly identifying the gap in previous research in the area for which this study will make a contribution. The review of the relevant knowledge in microfinance is expected to help develop sharp and insightful research questions. The review of the relevant literature on microfinance is important for determining what is known and unknown about the chosen research topic and also keep abreast with current research approaches and trends and debates. The assessment of the state of knowledge relevant to the research topic is expected to inform the analytical framework, methods of collecting data and analysis.

This chapter begins with a disaggregation and analysis of the term ‘microfinance’ and finally postulates a working definition for this thesis. Next, this chapter examines the parallel between changes in development ideology and microfinance to enable the understanding of the changing perceptions of microfinance and why it has gained so much popularity as a development tool. As part of identifying the gap in the literature, the chapter presents and reviews some classic impact assessment studies. The rest of the chapter presents and discusses studies on the various components of microfinance interventions and how they impact on poverty. The chapter concludes with implications of the relevant literature on microfinance for this thesis.

## *2.2 What is Microfinance? Disaggregating the Concept*

Microfinance has become a popular and fashionable word in financial and development circles. What then is microfinance? This is what CGAP (2010:1) has to say about microfinance:

> "Microfinance" is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as "microfinance institutions" (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

In addition to the definition above, Azevedo's (2007) adds another dimension: the rationale for the provision of microfinance services. 'The term microfinance refers to the provision of financial services for low-income households and micro entrepreneurs (both urban and rural) for productive purposes' (ibid: 301). However whether microfinance is always provided for productive purposes is debatable. This issue is further discussed in subsequent sections of this chapter.

To say microfinance is provided by microfinance institutions is not always correct. In recent times it is common to find many essentially non-financial NGOs and commercial banks involved in microfinance. These institutions cannot be called microfinance institutions. The difference between microfinance interventions and microfinance institutions is discussed in

Appendix 4. Continuing, the two definitions above represent the common conception of microfinance. They portray the common conception of microfinance: financial services that formal institutions provide for the poor. Seibel (1999) and Wright and Rippey, (1999) challenge these definitions and argue for a more inclusive view of microfinance. They contend that microfinance should be more inclusive and should take into consideration informal financial arrangements such as moneylenders and financial support from relatives which constitute an important source of financial assistance for the poor. Although informal financial services are technically part of microfinance, the term is generally known and used to refer to the provision of financial services to the poor by formal institutions such as the Grameen Bank, BRAC and FINCA. Some scholars prefer to use the term 'institutional microfinance' to refer to microfinance excluding informal financial services. For instance, when Robinson (1995) advocates the movement of microfinance away from subsidised credit to financial intermediation on commercial basis, it is with reference to financial services provided by formal institutions.

What is microfinance from the perspective of its service users? Copestake defines microfinance in relation to its users employing another of CGAP's definition:

> The Consultative Group to Assist the Poorest (the apex association of international donors who support microfinance) regards microfinance as "a powerful tool to fight poverty" that can help poor people to "raise income, build their assets and cushion themselves against external shocks." (CGAP, 2004a:1). Microfinance is defined here in relation to its users - rather than in relation to other forms of finance - as the supply of savings, credit, insurance and payment services to relatively poor people. Copestake (2007:1).

Rutherford (1999), on the other hand, perceives microfinance as the means by which poor people convert sums of money into large lump sums. Although Copestake and Rutherford's definitions add important dimensions to the definition of microfinance, they do not mention the various services that the poor access through microfinance. In addition, Rutherford's conception of microfinance does not indicate how microfinance enables poor people to convert sums of money into lump sums.

Ledgerwood (1999:1) provides a more comprehensive definition of institutional microfinance:

> The term [microfinance] refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however some microfinance organisations provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence and training in financial literacy and management capabilities among members of a group. Thus the definition of microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a developmental tool. Microfinance activities usually involve:
>
> - Small loans typically for working capital
> - Informal appraisal of borrowers and investments
> - Collateral substitutes, such as group guarantees and compulsory savings
> - Access to repeat and larger loans, based on repayment performance
> - Streamlined loan disbursement and monitoring
> - Secure savings products

Ledgerwood's definition encapsulates non-financial services, an essential but neglected component in definitions, which enables the poor to make efficient use of microfinance.

Gallardo (2002) investigates how microfinance is defined in the Ghanaian context from the perspective of the central bank, the Bank of Ghana (BoG). The Non-Bank Financial Institutions (NBFI) of Bank of Ghana classify microfinance as lending to borrowers with the capacity to support loans of less than GH¢100 and in the case of group lending—with joint and several guarantees of members of the group—for an amount not exceeding GH¢500. With the high level of inflation in Ghana definitions that give precise figures become out of date after a short while[6]. Buyske (2004) estimates the average global microfinance loan to be around $400 (about GH¢ 600). It is argued that it is poor people's inability to access formal financial services that triggered the use of innovative methods of making financial services available to them. Microfinance loans must therefore be small amounts which the poor can effectively manage.

Is microfinance aimed at poverty reduction? The general consensus demonstrates that microfinance is inextricably linked to poverty reduction particularly with regard to developing countries (Haynes, Seawright, Giauque, 2000). Ledgerwood (1999) argues that microfinance does not aim at just providing services, it is a development tool. Littlefield, Murdoch and Hashemi (2003), Simanowitz and Brody (2004) and UNCDF (2005a) perceive an important role for microfinance in the achievement of the Millennium Development Goals (MDGs). UNCDF (2005b) argues that microfinance underpins the achievement of many Millennium Development Goals and plays a key role in many of its strategies. Although many studies postulate two or three other objectives of microfinance, there is overwhelming evidence that at least in developing countries microfinance is regarded as an important poverty reduction tool.

In summarising the above definitions and discussions of microfinance, the following salient factors emerge: microfinance is an *activity* that employs certain *innovative techniques* (joint liability, savings collateral etc) to provide some *services* (financial and non-financial) to a certain category of *people* (the poor who do not have access to formal sources of financial services) for a certain *purpose* (principally for investment in business) and aimed at achieving a certain *objective* (poverty reduction-at least in developing countries). It is important to note

[6] Individuals routinely borrow GH¢500 and above in microfinance interventions (see Table 2.1A and 2.2A in Appendix 2).

that microfinance as a concept is dynamic. Where, why and how microfinance has been implemented has undergone a many changes and this is discussed in the section that follows.

## *2.3 Changing Perceptions and Theories of Microfinance*

Why does microfinance take the form that it does today and what accounts for the changes in conceptualisation of microfinance over time? To answer this question the study reviews and analyses how prevailing development ideologies and perceptions of poverty have influenced the conception and direction of microfinance over time. It briefly discusses factors that precipitated the need for microfinance interventions and some theories concerning the relationship between microfinance and poverty reduction.

### 2.3.1 Changes in Development Thinking and Microfinance: The Parallelisms

Changes in development thinking and ideological climate from the 1950s posed major challenges to how anti-poverty strategies, especially microfinance, were conceptualised and implemented. Tracing and analysing these developments through time helps explain how and why microfinance took the forms and features that it did and also account for the state of the present microfinance industry. Modes and rationale for the delivery of microfinance services have undergone changes over the years with the major drivers being changing development ideas and society's perceptions of poverty. Shifting development paradigms and perceptions of poverty have proved to be crucial determinants in the management, nature and scope of poverty reduction interventions like microfinance.

Three major waves are identified concerning the provision of financial services to the poor. The first was the provision of heavily subsidised credit to poor farmers with almost exclusive emphasis on poverty reduction during the 1950s to the 1970s. The second wave which began in the 1980s involved the provision of microcredit to mainly non-farm micro-enterprises by mostly NGOs. The third and the most recent involved the realisation of the multiple and complex financial needs of the poor and hence the introduction of microfinance which involves financial intermediation and an orientation towards profit-making. It is important to note that categorisation of microfinance institutions into waves should not be considered as distinct periods without overlaps. For instance the Unit Desas or Village Banks, the rural financial institution of the Bank Rakyat Indonesia (BRI), operated as a financial intermediary and adopted market-oriented interest rates as far back as 1983 when subsidised microcredit was in vogue (Hulme and Mosley, 1996).

With regard to the first wave, the creation of formal agricultural credit systems, also known as Agricultural Development Banks (ADBs) by donors and governments between the 1950s and the 1970s was inspired by the idea that widespread shortage of credit constituted a major constraint to development of agriculture which happened to be the backbone of most developing countries (Yaron, 1992). The dearth of credit they envisaged, resulted in low rates of agricultural productivity, lack of employment opportunities, inadequate incomes and low savings rates. This period was dominated by the meritocratic explanations of poverty. According to Morduch (1999) received wisdom and the general perception of the poor during this period was that they were ignorant of the means of lifting themselves out of poverty and did not work hard enough. It was assumed that the poor could not save enough to accumulate assets and could not afford credit on commercial interest rates.

In conformity with the then prevailing state-led development paradigm, as exemplified by the Keynesian economic doctrine which provided a justification for greater economic role for governments, the ADBs, which were usually state-sponsored financial institutions, were tasked with the responsibility of offering subsidised microloans to small-scale farmers. They encouraged the adoption of new technology through training and education in agricultural production techniques and entrepreneurship and thus ensuring the growth of the agricultural sector in general (Yaron, 1992; Morduch, 1999a). Microfinance reflected the top-down and supply-driven ideas prevalent at that period.

In spite of the good intentions and the advantage of operating on national scale, ADBs nearly failed universally and their disaster stories are well-documented (Gonzalez-Vega and Graham, 1995; Robinson, 1995; Morduch, 2000). As already mentioned, ADBs mostly adopted supply-driven strategies that neglected savings-mobilisation and other financial services in favour of external funding and emphasised top-down controls. These banks also had weak and dysfunctional governance structures and internal control mechanisms which were unable to prevent political intrusion and the disciplining of delinquent borrowers (Gonzalez-Vega and Graham, 1995).

The second wave begun in the 1980s with the realisation that the poor were not ignorant after all and that they were entrepreneurs who needed an institutional environment that would permit them to play their part in the development process (Chamlee-Wright, 2005). The structural explanation of poverty was in vogue: poverty was mainly a result of the market game and the unfair distribution of resources in the society (Khandakar, 2004). General development ideas shifted from supply- to demand-driven approaches. This new thinking led to the increased realisation of the multiple and complex financial requirements of the poor.

As a result household and livelihood sustainability dynamics became important in microfinance so that the issue of fungibility, which hitherto was perceived as a hindrance in targeted financial interventions, became an important strategy for the microfinance users (Hulme, 1997).

With the new development thinking in mind frontline development organisations started to offer microfinance services to poor households (usually women[7]). This mainly Non-Governmental Organisation (NGO) approach to poverty reduction involved the provision of loans to create income-generating activities in mostly the non-farm sectors of rural economies. Microfinance organisations during this period mainly provided subsidised microcredit, while a few, like the Grameen Bank, demanded regular compulsory savings as a precondition for accessing credit (Khandakar, 2004).

The third wave started with the permeation of the ideology of neo-liberalism into most developing countries which resulted in the removal of controls in financial sectors through programmes such as the Structural Adjustment Programme (SAP) and the Economic Recovery Programme (ERP) in Ghana. These developments together with the Microcredit Summit of 1997 spawned the idea of a new concept for microfinance (Khandakar, 2004). Hitherto microfinance consisted almost entirely of allocating only loans or microcredit[8] to service users. Although the ideas of microcredit and microfinance are similar, they differ significantly in motives and modes of operations (Robinson, 1995). Unlike microcredit which provides mainly credit, microfinance is involved in financial intermediation. Again unlike microcredit institutions which are mostly altruistic and welfarist inclined, microfinance organisations are usually inspired by the profit motive (ibid). Contemporary microfinance

[7] For reasons why microfinance institutions cater to mostly women see section 2.6.
[8] Some researchers such as Malcolm Harper argue that microfinance is still essentially about microcredit.

institutions usually intend to become self-sustaining and end their dependence on external finance. This objective, which is to ensure institutional sustainability and growth (outreach), has now become the central issue in the microfinance industry.

Burkett (2007) says microfinance enjoys ever-growing funding and enthusiasm in recent times because the concept of microfinance is in consonance with the neoliberal and neoconservative economic agenda which emphasise market-oriented solutions to development. The idea of poor people working their way out of poverty is attractive to an ideological position that approaches poverty reduction through the engagement in notions of ‘active individualism’ that evoke empowerment and entrepreneurial activities and economic citizenship. Microfinance is attractive because it promotes the means of building people’s capacity to participate in economic activities and create social capital but de-emphasises structural analysis and collective responses.

In sum microfinance programmes have reflected the development ideology prevalent during the different epochs. The recent models of microfinance have been shaped by contemporary discourse in development. Thus it is important to understand that as much as it is argued that microfinance is driven by research and innovations, the underlying drivers of change in microfinance have been development ideologies.

### 2.3.2 Theories of Microfinance

According to Hulme and Mosley (1996), the proposition that capital investment and other financial services constitute key determinants of economic growth and income improvement continues to drive most development efforts including microfinance. Hulme and Mosley (1996) cite a large number of research results that indicate a strong and positive correlation between growth and the share of investments in GDP. It is precisely this idea that drives microfinance. It is assumed that like the positive relationship between financial investment and economic growth, financial investment in the poor through microfinance services will lead to increased incomes of the poor and ultimately result in poverty reduction (Hulme, 1997). El-Solh (1999) argues that microfinance cannot by itself generate income but should be perceived as an important input in the process of developing micro-enterprises. Microfinance institutions are perceived as important because they fund micro- and small-scale enterprises which are integral to the private sector which in turn are perceived as an engine of growth for economies of developing countries that have moved from state-directed to market-oriented economies.

El-Solh (1999) postulates two theoretical propositions on the macro-level for supporting microfinance interventions: economic and human resources. By enabling the establishment of new micro-enterprises, microfinance supports the efficient use of labour and capital as factors of production and therefore contributing to economic growth and ultimately to sustainable development. The human resources theory is quite similar to the economic one. Since it is generally accepted that microfinance is labour-intensive, facilitating access to microfinance is likely to result in the acquisition of new skills and the upgrading of existing ones and thus improve on the capacity of the poor to generate income and improve their livelihood.

In addition to the discussed theories underlying microfinance, another spinoff theory is that of empowerment: the poor become empowered when they participate in microfinance activities (Hashemi, Schuler and Riley 1996; Chester and Kuhn, 2002). By self-selecting themselves into groups and self-managing their groups, and gaining control over the means of making a living, poor people become empowered and independent. Empowerment has been particularly relevant for women who are perceived as being marginalised in most developing countries.

In sum, among the theories that underlie the concept of microfinance it is the economic dimension that stands out as most significant. Poor people are provided with capital which they invest in income-generating activities and make profit. This should result in a virtuous cycle: credit leads to increased production and incomes, and allow for greater consumption and savings, and result in further investment (Meyer, 2002). These theories have not been without criticisms. There are many concerns about how the theories play out in practice. This constitutes an area of investigation of this thesis.

## *2.4 The Role of Impact Assessment in Understanding Implementation Process and Perspectives of Service Users*

Much of the research in microfinance has involved assessing its impacts on individual service users, businesses, households and communities. However the extent to which impact assessments incorporate implementation processes of microfinance interventions and perceptions of users in their studies has not been highlighted in the literature. This section begins with a postulation regarding the importance of incorporating implementation processes and perspectives of service users in impact assessments. This section assesses a few well-known impact assessment studies to ascertain the extent to which they investigate and analyse implementation processes of the various components of microfinance interventions and give representation to perceptions of service users.

Microfinance interventions have primarily been assessed through impact assessments. The interest in impact assessment is due to concerns about the effect of microfinance on poverty reduction, enterprise development and economic growth since the claims of the benefits seem to have outstripped the evidence that is currently available (Hulme 1997). Armendariz de Aghion and Morduch (2005) and Hulme (1997) have argued that the impact assessments primarily attempt to answer the question: What would have happened to the service user had the intervention not existed? It can be argued that to understand how and why microfinance affects poverty, impact assessments need to understand how microfinance interventions work within the context in which they are implemented (Verhagen, 2001; Simanowitz and Brody, 2004).

If impact assessments fail to investigate how microfinance interventions are implemented and how they work, then such an assessment will amount to a black box assessment. It is not enough to conclude that an intervention works or does not work if one is not privy to the knowledge of why and how the observed finding occurred. For example, using randomised control trials (RCTs) microfinance critics have concluded that microfinance interventions do not reduce poverty (see Karlan and Zinman, 2010). However, without investigating how the said intervention was implemented, concluding that microfinance interventions do not work might be flawed. This is tantamount to claiming microfinance interventions are homogenous. Microfinance interventions differ in orientation, the types of services they provide and how they are provided. Microfinance would therefore influence service users in diverse ways (Barnes, Morris and Gaile, 1998; Barnes, Gaile and Kibombo, 2001; Holvoet, 2004).

### 2.4.1 Conventional Impact Assessments

The study examines some well-known conventional impact assessments to ascertain the extent to which implementation processes are incorporated in their work. It begins with an often cited study by Pitt and Khandker (1998) which examined the impacts of participation by gender in the Grameen Bank and two other group-based microcredit programmes[9] in Bangladesh on labour supply, schooling, household expenditure and asset accumulation. In this study, a quasi-experimental household survey was conducted on 87 villages in Bangladesh. This was one of the first studies to employ econometric analytical techniques that enabled it to account for issues of endogeneity and self-selection in microfinance impact assessment. Indeed the robustness of the methodology makes it a classic[10] in studies in microfinance impact assessment. The primary finding of the study was that poor households experienced greater benefits when programme participants were women. For example, the study found that for every additional 100 *taka* lent to women household consumption expenditure increased by 18 *taka* compared to 11 *taka* for men.

Although the above study provides some contextual information on the study area, it is silent on how the three programmes were implemented. Pitt and Khandker only describe part of the intervention designs but not the implementation process. For instance, did the observed findings occur because the programmes were particularly suitable to women and not men? Were some services such as non-financial services patronised by men? What were the roles of the various components of the interventions in the achieving the observed findings? Armendariz de Aghion and Morduch (2005) concede it cannot be ascertained from the estimates in the analysis why the women have a higher marginal impact than men. The study

[9] Bangladesh Rural Advancement Committee (BRAC) and Bangladesh Rural Development Board (BRDB)
[10] Findings of this study have been disputed by Roodman and Morduch, (2009) by re-examining the data.

is so engrossed in econometric methods of accurately assessing impacts that ignores the question of why and how the observed impacts occurred.

Next, a study by Johnson and Copestake (2002) is examined as a case of one of the few impact assessments studies that proves impact and demonstrates how and why these impacts occurred. This multi-component and multi-team research studied the operations of FINCA, an international microfinance NGO, in Malawi. In a series of component studies, the team of researchers employed qualitative and quantitative (cross-sectional and longitudinal) analysis. The study assessed the economic, social and geographical impacts of the intervention; contextual influences; differences in impact between households; and impact improvement. The study compared three groups: continuing clients, departed clients and a control group. The significant findings of the study are presented below. Johnson and Copestake's study is exhaustively reviewed not just as an example of a comprehensive impact assessment, but also for the wealth of information it reveals and its potential relevance to the thesis.

The microfinance intervention Johnson and Copestake studied, FINCA, operates a village banking model, lending money and accepting savings from low-income women entrepreneurs who are organised into groups. At the time of the baseline survey 48% of service users were below the poverty line. This is typical of people that most microfinance reaches: people clustered around the poverty line (Hulme and Mosley, 1996). Women were found to be in control of their loans and incomes. The purpose of the income earned as a result of microfinance was to supplement household food expenditure, to make provisions of small items of expenditure such as contributions to educational needs of children. A year after the baseline survey, 59% of respondents in the repeat survey had left the programme. For microfinance interventions in general, Hulme (1999) observed that exit rates are high in the first two or three cycles: an understandable occurrence during which groups are whittled down to members who are comfortable with one another. The study found that the most common reason for leaving was the obligation to pay weekly (40%).

The study found a highly significant relationship between the spouse’s occupation of those who stayed and those who left the programme. Those married to farmers and unskilled workers being more likely to drop out than those with husbands who were businessmen or employed professionals. An explanation that can be adduced for this finding could be that service users with spouses who were businessmen or employed professionals were relatively well-off and therefore enabled loans to be invested in business which yielded profit rather than for just household consumption. It is also probable that spouses with well-off spouses were located in the urban areas which were found to be more conducive for microfinance activities. For example, this study found that in the rural area (Central Region) 27% compared to 75% of clients in the urban area (Southern Region) claimed FINCA had enabled them increase their incomes.

Continuing service users had increased their business revenue by 74%, while 9% and 62% of the dropouts and comparison groups respectively had increased their business revenue. However the ratio of gross profit to turnover was higher in the dropout group and the comparison group than the continuing service users. The researchers claimed that this could be a result of the pressure involved in doing business with FINCA loans rather than with own capital, as cash flow is critical to making weekly payments. Food expenditure had increased for continuing service users, with a few continuing clients in the Central region saying they had to reduce meals in order to have money for repayment.

The proportion of continuing service users owning a range of high value items such as TVs, radios, chairs was higher than dropouts. A much higher proportion of the comparison group than continuing clients owned assets despite overall greater incidence of being below the poverty line. The inflexibility in loan repayment in an environment characterised by fluctuating cash flows precluded continuing clients from acquiring household items unlike the comparison group who could afford to buy what they wanted and survive on what was left without the pressure of loan repayment. Investment in business assets was minimal. The majority spent nothing on upgrading business premises since most operated their businesses from the market.

Loan repayments and heavy savings requirement of the programme meant little money was left over for household use. The savings facilities were however lauded by the clients. Major benefits included learning the discipline of savings, with service users saying it was easier to save while with the intervention than independently. Having the opportunity to save was missed by those who left FINCA. Among Malawi’s matrilineal societies children were the responsibility of the women’s family and therefore many women were concerned about their future. The study observed that group members encouraged each other, visited, chatted and learnt to relate with one another. The issue of joint liability (having to pay for others) caused much tension among members. Some groups experienced problems including high member turnover. Some of the reasons for this state of affairs were that new clients who joined already-formed groups were not provided with training like those who started the groups and in some cases power struggles emerged between old and new members.

Borrowers in the rural area were more likely to withdraw from the scheme. The study attributed this to the poor markets and limited economic opportunities in the rural areas. The study emphasises the dependence of the non-farm enterprises on agriculture in the Central region compared to that of the south. The profound influence of seasonal agriculture on business opportunities produced much uncertainty. Traders were required to shift stock quickly in response to opportunities that arose. The rigid methodology of a16-week cycle was challenging for service users who usually encountered a mismatch between the loan cycle and business opportunities. It is noteworthy that the most cohesive and best performing intervention was in a town close to the airport that gave the town more diversified economic opportunities.

The study found that the scale of business of women's income-generating activities in the Central region (rural area) was small and could be classified as subsistence micro-enterprises'. Most of these service users had no working capital other than the loan itself therefore business ceased between cycles. In addition the length of time a service user had been in business was related the outcome of dropping out. More established businesses were less likely to leave the intervention.

In sum continuing service users fared better than dropouts but there was there was not much difference between the continuing group and the comparison group. Indeed profits of a comparison group experienced faster growth than the continuing clients. The study's finding suggests that while enterprise profitability can be adequate without FINCA loans, the presence of FINCA loans tended to reduce profitability. Rigidity of loans was counterproductive in a highly seasonal environment and caused a high level exit and poor impact performance.

The above study compares three groups: continuing service users, comparison group and dropouts. The comparison between continuing groups and dropouts was flawed because it is obvious that the two groups were dissimilar at the outset. However the comparison reveals some poignant issues. Poorer service users and those from the rural area are more likely to drop out. Businesses in the rural areas were more likely to be influenced by seasonal fluctuations. Johnson and Copestake (2002) have clearly demonstrated that microfinance works better in urban areas than rural areas.

Johnson and Copestake's (2002) study is comprehensive and focuses on contextual factors. The rural/urban comparison was very insightful. However, the study does not systematically examine the implementation processes of the microfinance interventions. This is important for answering questions of why and how the observed impacts occurred. For example it does not examine how groups were actually formed or the process of loan repayment. What is left unsaid can sometimes be very important given that in a conversation with Ms. Kalebe-Nyamongo[11] she claimed she witnessed the seizure of properties of defaulting service users by officials of FINCA in Salima Township in the Central Region. The study is silent on such incidents which have a potential to affect the outcomes of microfinance interventions. For example it would have been interesting to know whether the implementation of the intervention involved bribery and any other corrupt practices and the effect of these on incomes.

[11] Ms. C. Kalebe-Nyamongo is a PhD student in the University of Birmingham. She witnessed the activities of FINCA during a study of the Tobacco Association of Malawi (TAMA) in 2001.

### 2.4.2 Randomised Control Trials- Nouveau Impact Assessment Studies

In the last three years some researchers have moved away from conventional impact assessments and have begun using randomised control trials (RCTs) to assess the impact of microfinance. While in conventional impact assessments the researcher has no control over who gets into the intervention or the control group, RCTs enable the researcher to randomly assign people into either the control or the intervention group. RCTs are therefore able to overcome the perennial problem of identifying a suitable control group for comparison. Findings of RCTs are considered more credible because the researcher is able to control the research process and avoid the pitfalls associated with conventional impact assessments. What do RCTs tell us about the implementation processes and the impacts of microfinance interventions? Dupas and Robinson (2008) conducted a randomised field study in Kenya to test whether savings constraints prevented poor micro-entrepreneurs from increasing the size of their businesses. The researchers gave interest-free savings accounts to randomly selected daily income earners and collected self-reported log-books that respondents updated daily. The study found that owning a savings account was associated with substantial and positive impact on productive investment levels and expenditures for women but no measurable impact on men. The findings suggested that savings accounts enabled women to cope with household shocks without having to draw down their working capital.

Most impact assessments usually assess the entire microfinance intervention on poverty. Dupas and Robinson’s study is one of the few that have focused on one component (savings) of the intervention. The use of self-reported data is a plus because it likely to provide useful insights from respondents which could not have been accessed in any other way. Like the other impact assessments examined in this thesis, the study by Dupas and Robinson (2008) does not investigate how the savings facilities are implemented by the village bank or provide much contextual information which may have been insightful in understanding the findings of the study. For example why did a substantial proportion of entrepreneurs (40%) not use the savings account? What was entrepreneurs' perception of the savings facilities?

Two studies employing randomised control trials are examined next. Karlan and Zinman (2008a) used RCT to examine the impact of consumer loans in South Africa. The same authors Karlan and Zinman (2009) measured the impact of expanded access to credit on business growth and well-being in Manila. In South Africa respondents who had access to consumer loans were more likely to have kept their jobs, have significantly higher incomes and have a more positive attitude of the future. In the study in Manila it was found that increased access to microloans resulted in less investment in the targeted business (fungibility?). The authors contend businesses shrunk as a result of clients shedding unproductive workers. Treatment effects were found to be stronger for male and higher income earners, groups which were not normally targeted by micro-lenders. Microfinance was found to mainly work through risk management and investment at the household level rather than directly through targeted businesses.

As stated previously, the main difference between findings obtained through normal impact assessments and randomised control trials is that findings of randomised control trials are more credible. However, like other impact assessments, the studies by Karlan and Zinman fail to incorporate the intervention processes and the context in which the interventions occurred in order to interpret and understand the findings of the studies. For instance, contextual data would have explained why people who took loans in the South African study were more likely to have kept their jobs. It is possible that people who took loans in South Africa kept their jobs because if they had taken the risk of changing jobs and had been rendered unemployed even just for a few months, it would have increased their chances of loan default. The clients of the two interventions are much wealthier than those found in typical microfinance settings. For example clients in the South African study were employees who earned average salaries of $3600 per year and could access loans from other banking institutions. The consumer loan scheme in South Africa cannot be strictly classified as a microfinance scheme as per the operational definition of microfinance for this thesis (see section 2.2). In addition the two studies were conducted in urban communities and do very little to enlighten us about how the interventions have fared in rural areas.

To conclude, it is evident that models of impact assessment reviewed focus on ensuring that their findings are relatively credible and valid. Except for the study by Johnson and Copestake (2002) none of the other studies reviewed had significantly considered the issue of context as an explanatory factor in their analysis. In addition if these studies are somehow representative of impact assessments, then it can be concluded that impact assessments pay little attention to how microfinance interventions are implemented. It is argued that intervention designs (which impact studies focus on) can significantly vary from how they are implemented (Matin and Hulme, 2003). This implementation gap can be very wide in developing countries.

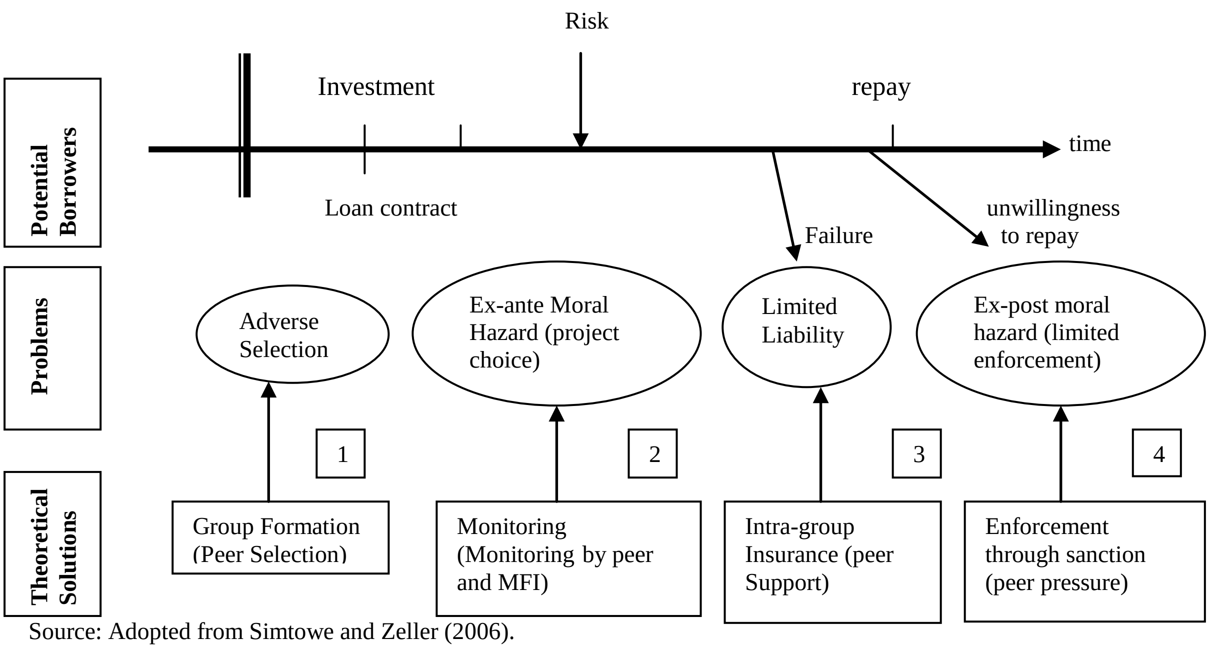
## *2.5 Group Lending*

What is known about the implementation processes and dynamics of group lending and what are its implications for poverty and why? Group lending refers to the strategy where poor people usually without collateral come together to form groups for the purpose of obtaining loans and other financial services from microfinance institutions (Ghatak, 1999; Armendariz de Aghion & Morduch, 2005). Group lending usually uses joint liability as a form of social collateral that replaces physical collateral, a resource which the poor are usually unable to provide. Joint liability implies that if one member cannot repay a loan then the other members of the joint liability group will have to do so (Ahlin and Townsend, 2007). Some attributes of group lending is its ability to mitigate asymmetric information and enforcement difficulties in the finance market. Group lending implies that risks are essentially transferred from the microfinance institution to the borrowers themselves and additionally mitigates problems of adverse selection, moral hazard, lack of insurance and lack of enforcement (Simtowe and Zeller, 2006). Marr (2001) cautions that it is important not to assume group lending dynamics as existing in a vacuum but to perceive the process as embedded in social, economic and cultural factors. Group behaviour is influenced by power structures, evolving risks, constraints and opportunities that emerge during the process (ibid).

Achieving economies of scale was the motivating factor for first use of groups by the Grameen Bank, which is widely reputed to be the first microfinance institution to sustainably lend to groups. However, the Grameen Bank realised that asking people to form groups for credit not only reduced the cost of screening and monitoring loans but also drastically minimised costs of enforcing debt repayment (Armendariz de Aghion & Morduch, 2005).

The review of the literature on group lending employs a joint liability model presented by Simtowe and Zeller (2006) to explain and understand the strategy of group lending in microfinance. Figure 2.2 below shows loan transactions and various stages in the group lending approach starting from group formation through to repayment. Each stage is associated with a problem that group lending is supposed to address. The stages identified in Figure 2.2 will form the basis of the organisation and discussion for the rest of the section. Marr (2002) adds another stage (auditing) to the Simtowe and Zeller model. Marr defines auditing as the process of investigating the causes of loan non-repayment to ascertain whether the default was wilful or otherwise. Auditing can however be subsumed under the fourth stage in Figure 2.2: members audit their peers in case of loan default before deciding to enforce repayment. In Figure 2.2, it can be argued that stage four should come before three because the final stage of the process is when the loan cannot be repaid and other group members are bound by joint liability principle to repay irrespective of whether the default was wilful or otherwise. Simtowe and Zeller's dynamic presentation of group lending (Figure 2.2) should not be seen as simple problem and solution stages: some solutions address problems in other stages. For instance, peer selection can mitigate the problem of ex-ante moral hazard: members select peers who they know are likely to engage in non-risky projects. What are shown in Figure 2.2 are the dominant solutions to potential problems in each stage of the intervention.

**Figure 2.2: Dynamic Group Lending Model**




Source: Adopted from Simtowe and Zeller (2006).

### 2.5.1 Group Formation

This is the first stage in Figure 2.2. Allowing groups to form on their own is crucial and ensures that potential borrowers can utilise local information they have about each other's project or attributes in order to look for the best partners (Ghatak, 1999, 2000; Armendariz de Aghion & Morduch, 2005; Al-Azzam and Sarangi, 2007). The idea that potential members are jointly liable for loans means that self-selection is crucial to ensure assortative matching, where safe or risky people form groups with their kind. Enabling the self-selection of groups reduces the incidence of adverse selection (Ghatak, 1999). Rogaly and Johnson (1997) propose that members' control of groups devoid of manipulation by microfinance officials is vital for the success of the group lending scheme.

Some empirical observations reveal that not all groups in microfinance interventions are formed using peer selection. Karlan (2003), for instance, describes how FINCA affiliates in Peru invited interested borrowers to add their names to a list which later becomes a group. Marr's (2002) research in shanty towns and rural Peru revealed that groups started off as fragmented and heterogeneous. This implied that groups had limited information about their peers' level of risks. Marr found initial information levels among group members to be generally superficial. Marr attributes this state of affairs to four factors: the lack of interest of loan officers in the screening process; members selected for their readiness to hand over loans to another relative; persons in position of power ignoring the selection criteria for political favours and money; and the pressure to find enough people to attain the minimum number to start a group. Groups therefore exhibited traits of heterogeneity due to what she calls 'hidden agenda' of group members and officials.

The above discussion emphasise the difference between how groups are supposed to be formed and how they are really formed in practice. Self-selection based on risk type is supposed to mitigate the problem of adverse selection as identified in Figure 2.2. Groups self-select people of the same risk type thereby forming a homogeneous group. Homogeneity of risk type seems not to be the only factor in ensuring a successful group lending. Mknelly and Kevane's (2002) study of a microfinance intervention in Burkina Faso underscores the importance of achieving homogeneity in socio-economic status. Their study found that loan sizes were positively correlated with socio-economic class. Unequal sizes of loans affected repayment performance. Members who had taken smaller loans were reluctant to be jointly liable for much larger loans taken by their peers. Socio-economic homogeneity among groups is expected to enhance intimacy, cooperation and consensual decision-making. However it has been argued that heterogeneous groups are not without merit. They mitigate covariant risks and also improve group performance when better-off service users assist poorer service users with loan repayment.

To conclude it is evident that most microfinance institutions want groups formed through self-selection to ensure homogeneity in terms of risk and socio-economic status. In practice such goals may not be realised because of implementation problems and other interests. For example, intrinsic contextual factors in a community such as ethnic and caste affiliations can influence group formation activities.

### 2.5.2 Peer Monitoring

The second stage in Simtowe and Zeller's model is group monitoring. Peer monitoring means service users scrutinising or checking their group members to ensure that they do not engage in activities that will jeopardise loan repayment. Stiglitz (1990) says that microfinance institutions need to ensure that service users use loans prudentially so that the likelihood of repayment is enhanced. For service users the incentive to monitor the use of loans stem from the issue of joint liability and the potential loss of access to future loans for all members in a group (Sharma and Zeller, 1997). Stiglitz (1990) adds that the success of the Grameen Bank and other similar group lending programs have enjoyed success as a result of the peer monitoring strategy. Aghion (1999) argues that peer monitoring can also prevent strategic defaults in group lending by verifying peers project returns (ex-post moral hazard). Fuglesang, Chandler and Akuretiyagama (1993) also found that monitoring by the officials of microfinance interventions played an important role in improving repayment rates. For instance, the Grameen Bank primarily relied on staff for monitoring the use of loan funds.

How did peer monitoring work out in practice? Simtowe and Zeller's (2006) study, based on data collected by International Food Policy Research Institute (IFPRI) in 1999 from 99 Malawi Rural Finance Company (MRFC) credit groups, showed that members were not actively involved in monitoring. Members generally lacked knowledge about the characteristics of other members in the group. Field assistants were found to play a more important role in monitoring activities of service users. In this instance, field assistants were effective because the MRFC invested in agricultural projects which were visible for all to see and could be easily monitored. Marr (2002) also found a very low level of monitoring in groups in *La Chanchita* microfinance programme in Peru. More than half of service users had undertaken no peer monitoring whatsoever and those who claimed to have monitored their peers did so on an inconsistent basis. Peer monitoring was found to be expensive and the cost of monitoring appeared to be the most important hurdle in the peer monitoring process. Marr also discovered that monitoring was discouraged when sub-groups were composed of close relatives with strong interest in avoiding monitoring and penalties. Another important finding of her study was that information obtained through peer monitoring was distorted, hidden or not divulged to group members or intervention officers. People who volunteer such information could be labelled as informers and suffer some consequences. Marr, however, was of the opinion that peer monitoring was essential for loan repayment.

In sum the evidence on peer monitoring is mixed: while many theoretical studies point to the importance of peer monitoring in group lending, empirical enquiries such as that of Marr (2002) found that monitoring was only partially practiced. Like self-selection in group formation, peer monitoring required that members have good knowledge of how their peers used their loans. Empirical studies point to the difficulty in achieving perfect knowledge amongst service users. Marr (2002) and Stiglitz (1990) have demonstrated that peer monitoring is not costless. Service users would therefore assess the cost and the benefits to be derived from monitoring before taking a decision to undertake peer monitoring. If service users have not used peer monitoring, then have they ensured that loans will be employed in projects that will not jeopardise chances of repayment? In other words how will groups mitigate the problem of ex-ante moral hazard? Evidence from Stiglitz (1990) and Ghatak (1999) indicate that peer selection plays an important role in mitigating moral hazard as previously mentioned. For example, Stiglitz (1990) shows that group lending can increase the choice of safer projects when service users select peers willing to engage in safer projects.

### 2.5.3 Enforcing Loan Repayment

Enforcement refers to the use of peer pressure and/or sanctions to induce service users to repay loans. Enforcement is to mitigate the problem of ex-post moral hazard. Enforcement is shown as the third stage in this section instead of joint liability as depicted in Figure 2.2. It is argued that the fourth stage should precede the third in Figure 2.2. This is because the burden of repayment falls on the entire group (joint liability) after the application of pressure and sanctions fail to induce defaulting service users to repay loans. It is at the enforcement stage (stage 3 in this thesis) that Marr's (2002) audit stage mentioned earlier becomes relevant. When repayment is not forthcoming then members of the group have to ascertain whether the default is wilful or due to investment failure.

Beasley and Coate (1995) demonstrate that if social penalties (enforcement) are strong enough group lending can improve repayment rates. Marr (2002) argues that when the level of monitoring is low, groups tend to rely more on the use of peer pressure and sanctions to achieve high repayment. Paxton (1996) found in Burkina Faso that groups were more willing to exert pressure to encourage repayment before the loans were due rather than after default had occurred. In the study area in Burkina Faso, if reasons for default were considered uncontrollable members did not put much pressure on the defaulting service user. Village harmony was so valued that even when default was wilful there was not much pressure applied. In contrast Marr (2001) described the type of social sanction taken against defaulters in Peru. Defaulters could be ostracised from community-based relationships and harassed till payment was received. Violent sanctions such as aggressive public humiliation, seizure of private property and even burning of houses are not uncommon. Montgomery (1996) reports that sanctions applied against defaulters could range from negative comments, social exclusion to the seizure and sale of household assets.

### 2.5.4 Peer Support/Joint Liability

When peer pressure and sanctions have been applied and have failed to result in repayment, other members in the group have to make good the default. This should logically have been the last or fourth stage of the model. Simtowe and Zeller (2006) call this the problem of limited liability. It can however be argued that joint liability is not just a stage in the group lending scheme, but underlies the entire process of group lending (Ghatak and Guinanne, 1999). Service users have joint liability in mind when they organise themselves in to groups. It is the idea that all members of a group are jointly liable for any loan default that compels peers to monitor and apply pressure and sanctions to ensure repayment.

Although joint liability is perceived as the basis of group lending it is not enforced in some microfinance interventions. Jain (1996) observed in the Grameen Bank that even though there was much discussion and emphasis on the concept of joint liability, it was the individual defaulter who was pursued. Other members of the group did not have to suffer jointly for the non-payment of the loan by the individual. The Grameen Bank as whole has evolved: Grameen Classic System has evolved into the Grameen Generalised Scheme or Grameen Bank II, which has essentially abolished joint liability (Reggiani, 2005). Even though the new Grameen claims to have abolished the joint liability scheme, it has instituted the system of rewards for branches that achieve 100% repayment rates among others. This reward scheme is likely to compel Grameen staff and/or groups to surreptitiously force recalcitrant service users to pay up or help them to repay.

Joint liability is not without risk to service users. For example, when microfinance institutions decide to form groups without recourse to self-selection and in addition insist on joint liability, it is likely to create a problem for service users. For instance, what will happen to the issue of joint liability when the level of heterogeneity with regard to risk and socio-economic status is high? Few studies have been found that have comprehensively examined the effects of group formation and joint liability on service users.  Another matter that warrants examination is how contextual factors influence peer support or joint liability.

### 2.5.5 What is the Relationship between Group Lending and Poverty Reduction?

Most studies that have examined the impacts of group lending on poverty have employed loan repayment as a proxy for poverty reduction and they show mixed results. For instance, Gomez and Santor (2003), using data from two Canadian microfinance institutions found evidence that group lending lowered borrower default compared to individual lending and that group lending effects operated through self-selection into lending groups and once inside the group, greater group borrower effort. Karlan (2003) used data from FINCA-Peru and discovered that group lending engendered higher loan repayment and higher savings. Data collected from another group credit programme, FINCA- Costa Rica, showed that groups that screened their members and relied on local information had higher repayments rates than those who did not (Wenner, 1995). Mckernan (2002) also found that being a member of Grameen increased self-employment profits by about 126% after controlling for the direct benefits of access to loans. This increment was attributed to the increased social and human capital derived from group meetings. Finally, it is envisaged that group lending increases the efficiency of delivery of financial services to the poor and reduce transaction costs of microfinance institutions which, hopefully, might translate into lower cost of borrowing for service users.

Other studies such as Ahlin and Townsend (2007) and Wydick (1999) have examined how social ties affect group lending and the effect of group lending on repayment rates. Ahlin and Townsend (2007), employed survey data from joint liability groups of the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand and found the issue of screening during group formation as the most important and had a positive impact on repayments among the wealthier clients. Stronger social ties among the poorer clients reduced repayments. However, in a limited contract enforcement environment, such as in a village, sanctions tended to increase repayment. Wydick's (1999) study in Guatemala indicated no significant effect of social ties on group behaviour. Group members tended to function best as peer monitors. The author stated that social ties were likely to create a conflict of interest for groups, making threats of ejection from the group more difficult. Interestingly, the rural/urban divide appeared to enforce in groups through different means: urban groups mainly through intensive peer monitoring and for groups in rural communities social pressure, that is, threats of expulsion from the group.

### 2.5.6 Are There any Costs to Group Lending?

Although group lending is an innovation that enabled the poor to access credit, it is not without costs to borrowers. The essence of the group lending approach is to transfer responsibilities and liabilities from microfinance institutions to the service users (Armendariz de Aghion & Morduch 2005). Monitoring and the application of sanctions on recalcitrant group members could fray social relationships and ties. A group member might ask 'why should I be responsible for other defaulters in my group?' There is no easy answer to this question except that banks find this strategy a good and cost-effective means of doing business with the poor. A study in Bangladesh and Uganda revealed that between 76% and 87% of current borrowers and dropouts preferred to be independent borrowers (WWB, 2003). Some microfinance institutions such as ASA and Grameen have begun to modify their use of group liability, acknowledging that it does not work well in the later loan cycles (ibid). Group lending can discourage entrepreneurship especially in situations where some group members find themselves financially progressing faster than their peers. Progressive peers might find that they cannot obtain the amount of loan they require within the group. Huge loan differentials in groups create problems: members are reluctant to be jointly liable for much larger loans taken by their peers.

Perhaps the most important concern of the group lending approach on poverty is the danger that the very poor might be left out during the process of self selection (Johnson and Rogaly, 1997). Because the poorest are usually more vulnerable and are perceived as high risk, they may be excluded in the process of group formation. Contributing to this argument, Marr (2002) says that joint liability groups are often unable to harness local information for the purpose of peer monitoring, and hence have to resort to inflicting severe sanctions to achieve high repayment rates. These practices often appear to damage group cohesiveness and hit the poorest and the most vulnerable the hardest, creating poverty and undermining the very foundations of these microfinance schemes. Huppi and Feder (1990) are however of the opinion that negative experiences with group lending in developing countries emanate from problems of implementation rather than defects in the concepts.

In summary, the above discussion on group lending emphasises the importance of group members obtaining as much knowledge of their peer as possible for the purposes of group formation and peer monitoring. The basic motivation for groups to carry out the activities discussed above in Simtowe and Zeller’s model is that each member’s action or inaction has repercussions for the group as a result of the issue of joint liability. However, how groups are constituted and subsequent dynamics within the group depends on the implementation process and the environment within which the intervention occurs among others.

Does the microfinance literature enable the understanding of group activities and dynamics within context? Of the studies so far reviewed only Marr (2002) employs contextual analysis to explain her observed findings. The lack of insight into the context of the studies reviewed seems to inhibit the understanding of findings of the studies. For instance, although Wydick (1999) and Ahlin and Townsend (2007) find that very strong social ties amongst group members like friendship and family ties can inhibit loan repayment, they offer very little contextual information to explain this finding. This finding is explained by Marr (2002) to the effect that groups formed among people with strong social ties were done for reasons other than ensuring assortative matching.  Although Marr (2001, 2002) presents good background information (context) in her studies, she fails to distinguish between group lending dynamics in urban and rural areas. Regarding the effect of group lending on poverty reduction, it is evident from the fordoing discussion that group lending is essentially an important vehicle for enabling financial institutions to provide financial service to the poor rather than for directly reducing poverty. If it has any effect on poverty at all it is rather an indirect one. However, it should be noted that group lending is not the only mechanism through which financial services are provided to the poor.

## *2.6 Why do most Microfinance Institutions Target Women and what are the Implications for Poverty Reduction?*

The general perception of microfinance is about banking for women. Pioneer microfinance institutions such as BancoSol and the Grameen Bank have made women the core users (Armendariz de Aghion and Morduch, 2005). Mayoux (2002: 76) traces the increasing emphasis of targeting women:

> In the 1990s microfinance targeting women became a major focus of gender policy in many donor agencies. Literature prepared for the 1997 Microcredit Summit, donor policy documents and NGO funding proposals all present an extremely attractive vision of increasing numbers of expanding, financially self-sustainable microfinance programmes reaching large numbers of women borrowers' Mayoux (2002: 76).

### 2.6.1 Why Do Most Microfinance Institutions Target Women?

Emphasis on women in microfinance was initially based on practical considerations of ensuring that loans were paid back rather than any for any other reason. The Grameen Bank of Bangladesh was one the first microfinance institutions to experiment with women. Recounting their experience with women, Armendariz de Aghion & Morduch, (2005) say Grameen initially did not have such a strong emphasis on women when it begun business in the 1970s. Grameen shifted their focus onto women in the early 1980s when they showed better loan repayment records than men. The initial idea was to have an equal number of men and women but women's record showed so remarkable a repayment rate that by the end of 2002, 95% of Grameen clients were women (ibid). The practice of targeting women has since been emulated by most microfinance institutions.

Cheston and Kuhn (2002:9) summarise the rationale for targeting women as ensuring efficiency and sustainability of microfinance institutions: microfinance schemes run efficiently due to women's cooperation and good repayment records. Their 'lower arrears and loan loss rates have an important effect on the efficiency and sustainability of the institution.' Women are more likely than men to self-select into microfinance institutions with some conditions attached: namely training sessions, small loans, weekly meetings and joint responsibility (Armendariz de Aghion & Morduch, 2005). Johnson and Rogaly (1997) also confirm the forgoing argument that women are usually targeted to ensure better loan repayment rates and efficiency in implementation of microfinance services rather than for any other concerns.

Empirical evidence support the above augments for targeting women. For example, Rahman's (1999) village-level observations in Bangladesh revealed that Grameen Bank preferred to target women for strategic reasons of investment and recovery of loans than for the benefit of the women themselves. Women were found to be more compliant and easier to discipline than the men. Hulme (1991) found in Malawi that timely repayments rates for women clients were 92% against that of 83% for men in the Malawi Mundzi Fund (MMF). Rhyne and Holt's (1994) review of World Bank projects revealed that repayment data of the majority of projects reported a higher rate of repayment by interventions that concentrated on women than in mixed gender projects. Thus targeting women to ensure efficiency, sustainability and improvement in financial performance more than any other concerns about gender has gained almost universal acceptance

Apart from good repayment performance and ensuring the sustainability of microfinance interventions, women have later come to be targeted for other reasons. Two major factors have driven the increasing involvement of women in microfinance activities. The first has to do with promoting gender equity. Khandker (2001), and Pitt, Khandker, and Cartwright (2006) argue that many microfinance interventions specifically target the women based on the perception that they are poorer than men, they participate less in the labour market and have an inequitable share of power in household and community decision-making. The second reason for targeting women relates to the benefits that accrue to households compared to targeting men.

Using microfinance as a tool to foster gender equity is justified by studies conducted by the UNDP, UNIFEM and World Bank which indicate that gender disparity in developing countries result in stagnation in economic growth and development. Indeed a strong and positive relationship has been found between gender-related development indicators and the human development index (Chester and Kuhn, 2002).

First, women are targeted because they are more likely to be marginalised with regard to access to conventional forms of financial services. Women, more than men, are faced with difficulties in accessing credit for productive activities, especially in rural areas. Legerwood (1999:37) says 'women face cultural barriers that often restrict them to the home (for example Islamic purdah), making it difficult for them to access financial services.' Women suffer inequities with regard to access and ownership of productive inputs like credit and land. As a result women are likely to be poorer than men and this constitutes a justification for microfinance institutions to reach out to them. Cheston and Kuhn (2002) contend that women are targeted because they are overrepresented amongst the world's poorest people. According to Ledgerwood (1999), women entrepreneurs have been targeted by microfinance institutions because they almost always constitute the poorest segment of society. In the 1995 Human Development Report of the UNDP[12], it was reported that 70% of the 1.3 billion people living on less than $1 per day were women (Cheston and Kuhn, 2002).

Second, providing women with microfinance is said to facilitate the process of empowering women because they are usually in a subordinate position relative to men. Kabeer (1999) has defined empowerment as the process of women taking control and ownership of their lives through expansion of their choices. In a survey carried out in rural Bangladesh in 1998-1999, Pitt, Khandker and Cartwright (2003) discovered that women's involvement in microfinance led to a greater role in household decision-making; gaining more access to financial and economic resources; having improved social networks; having more freedom of movement; and increasing their bargaining power in the household. A study in Nepal to assess the empowerment effect of microfinance interventions by Ashe and Parrot (2001) found that 68% of women had experienced an increase in most areas of decision-making traditionally

[12] UNDP, (1996) the UNDP 1995 Human Development Report. New York: UNDP.

dominated by men. In the Philippines, Ashraf, Karlan and Yin (2009) used randomised controlled trials in a study that examined whether access to individually held commitment savings empowered women. The study found that access to goal-setting and savings resulted in a significant increase in empowerment for women. It is noteworthy that employing microfinance for ensuring gender equity has not been hugely successful mainly due to the fact that microfinance rarely challenges the socially embedded and seemingly intractable structures that perpetuate gender inequity. This is discussed in the next section.

Regarding the second justification for targeting women, many studies have found that households tend to benefit if income accrues to women instead of men. Ledgerwood (1999) argues that an increase in women's income benefits the household to a greater extent than a commensurate increase in the income of men.  For instance, in a study of the Grameen Bank in Bangladesh, Khandker (2003) estimated that microfinance contributes to household consumption at the rate of 18% for lending to females and 11% in the case of male borrowing. Women have been observed to spend more of their income on their households: women were more likely than men to spend their profits on household and family needs (Cheston and Kuhn, 2002). Thomas (1994) found that enabling women to access credit resulted in an increasing share of the household budget spent education, housing, and on health. Chester and Kuhn (2002: 8) conclude that several studies had confirmed the well-documented observation that women were more likely to spend their incomes on the household. They cite a Women's Entrepreneurship Development Trust Fund (WEDTF) report which revealed that increased income that accrued to women benefited their children, especially in diet, education, health care and clothing. Further evidence of benefits of microfinance on women is provided by Khandker (2005) who found evidence of positive impact of loans on women with the impact being more pronounced for those in extreme poverty.

### 2.6.2 Are There any Downsides to Targeting Women?

As with any social intervention, there are bound to be drawbacks with targeting women. According to Mayoux (2002), as the findings of the relationship between women and microfinance accumulated, the initial enthusiasm regarding the positive impact of microfinance on women and their households gave way to scepticism. The benefits of microfinance interventions that were expected to accrue to women failed to materialise as anticipated, especially regarding empowerment. The core of the issue is that power, and in this instance patriarchy, is deeply embedded in social systems, values and traditions which microfinance barely challenges. As result Mayoux (2002:76) suggests reasons why microfinance might have limited effect on women's empowerment:

- Many women have limited control over income and/or what little income they earn may substitute for former male household contributions, as men retain more of their earnings for their own use.
- Women often have greater workloads combining both production and reproductive tasks.
- Women's expenditure decisions may continue to prioritise men and male children, while daughters or daughters-in-law bear the brunt of unpaid domestic work.
- Where women actively press for change, this may increase tensions in the household and the incidence of domestic violence.
- Women remain marginalised in local and national level political processes.

Empirical evidence gives credence to Mayoux's (2002) reasons for the limited empowerment effect of microfinance interventions on women. In a study of two interventions in Bangladesh, Goetz and Gupta (1996) found that only 37% women, on the average, had considerable influence over loan use, while 63% had partial, limited and or no control over loan use. About 22% of respondents had no idea of how loans they had contracted were used.

Women had greater control when loan amounts were small and when the purpose of the loan did not challenge the prevailing gender division of labour. Goetz and Gupta noted that by targeting women microfinance institutions may be merely using women as unpaid debt collectors mediating between the microfinance institution and male members of the household, and thereby making them more dependent on the men. Given the very patriarchal nature of the Bangladeshi society this should not be very surprising. Hulme and Mosley (1996; 129) urge microfinance institutions to place greater attention on 'developing new and more productive roles for women'. Simply emphasising only disbursement to women is likely to promote tokenism and reinforce the existing gender roles.

Cheston and Kuhn (2002) argue that microfinance, rather than facilitating women's empowerment, reinforces gender inequalities. In Ghana, for example, Cheston and Kuhn discovered that women were taking an increasing share of household expenses once they begun earning incomes while their husbands reduced their contribution towards the upkeep of the household. These women became progressively more overburdened thus dampening their advancement towards empowerment. In Bangladesh Rahman (1999) found that the honour of husbands were at stake if their wives experienced repayment problems so husbands put much pressure on their wives when it came to loan repayment. Thus women service users faced pressure from the microfinance institutions and the family, a situation some described as intolerable. In sum, while microfinance can be a means of decreasing gender inequity, it can become a medium for the exploitation of women. Microfinance has been criticised for reinforcing gender roles and inequity and not doing much with regard to confronting social structures that perpetuate gender inequity.

### 2.6.3 Characteristics of Women's Business

Although there is a general tendency for microfinance interventions to focus on women, not much attention is given to the characteristics of women's income-generating activities in order to ascertain how they can potentially be affected by microfinance interventions. Ledgerwood (1999) investigated women's income-generating activities, taking into consideration women's traditional role in the household. The rest of this section is based on Ledgerwood's analysis of women's income-generating activities. Women tend to emphasise household maintenance and risk reduction in their business strategies. Women place less weight on the growth of their income-generating activities, preferring to invest profits in their households. Ledgerwood says women focus on trade, services and light traditional manufacturing. Their businesses tend to be located in the household with the frequent use of household labour. Businesses tend to start small and remain small through their lifespan. Women usually engage in businesses that offer easy entry and exit and do not need large amount of capital, fixed assets or special skill. Such businesses enable women to balance their work and household obligations. Such activities are likely to be seasonal, geographically transferable and amenable to household conditions. Ledgerwood concludes that the characteristics discussed limit women's choice of business activity, which represents an important consideration when microfinance interventions provide financial services for women.

To conclude, microfinance initially targeted women to boost loan repayment and ensure compliance with intervention regulations. Microfinance was later used as a tool to foster gender equity and empower women. Microfinance institutions also focused on women because they were more likely to fulfil the poverty reduction objective: households experienced more benefits if women were users of microfinance interventions. Although empirical evidence of greater benefits were largely realised, empowerment of women indicates mixed results because microfinance does not challenge the social structures that perpetuate patriarchy in most societies of developing countries. The nature of women's income-generating activities was reviewed. Women, in trying to juggle household duties and businesses, place less emphasis on business expansion and prefer businesses close to home.

## *2.7 The Microloan Trajectory: Does it Reduce Poverty?*

Microloans constitute the foundation of microfinance interventions. The importance of loans is demonstrated in the manner in which the terms 'microfinance' and 'microcredit' continue to be used interchangeably even though microfinance refers to the provision of a number of financial services including microcredit (loans). In fact the microfinance industry begun with the provision of loans and in addition most of the literature on microfinance is actually about the provision of credit or loans.

This section begins with a brief discussion of how the issue of fungibility has influenced the provision of loans. Issues of loan disbursement, size, use, and repayment which continue to provoke lively debates in the microfinance industry are discussed in this section. This section also reviews the state of knowledge on the effect of loan issues on poverty reduction.

### 2.7.1 Fungibility of Microloans

In developing countries in the 1970s, poverty was conceptualised as a result of low productivity in the agricultural sector. Loans were therefore targeted towards farming to boost agricultural production. Credit was usually offered in the form of agricultural inputs, such as seeds, tools, fertilisers, for land preparation and sometimes technical services

(Johnson and Rogaly, 1997). The idea that cash loans were fungible—they could be diverted for purposes other than which they were intended—was perceived as a problem that had to be addressed. Farmers were rarely offered cash because it was believed it would be diverted from agricultural production.

In recent times microfinance interventions have mostly targeted poor people engaged in income-generating activities or the entrepreneurial poor as a means of tackling fungibility. It was envisaged that the entrepreneurial poor will invest loans in income-generating activities in order to achieve reduction in poverty. In spite of this many empirical studies have found that loans are routinely used for purposes other than for income-generation. Despite this awareness most microfinance institutions insist on providing loans only for business investment purposes. Microfinance interventions try to track loan use through staff and peer monitoring. It is evident that microfinance institutions are unable to prevent loans being used for non-business purposes even though some microfinance interventions profess they can. Hulme (1998) however argues that fungibility should be seen as a strategy used by the poor to achieve the greatest level of satisfaction from loans.

### 2.7.2 Loan Disbursement Process

The loan disbursement process usually begins with verification of documentation. Loan officers collect pictures and other personal details to commence the loan application process. In group lending when members in the group have been verified everyone usually received a loan.  In some cases access to loans depended on the type of enterprise. For instance, Kah, Olds and Kah (2005) assessed ten microfinance institutions in Gossas, a small town in Senegal. During the application process, women were requested to indicate how they planned using loans and also their repayment strategies. On the basis of the information provided the best projects were selected to receive loans. Loan application process could take a few days to some months. Loan applications in joint liability lending schemes in general are usually considered as a single loan application. There can be delays in disbursement if there were problems with individual applications. For instance, in the Sita Devi Foundation (SDF)[13] a microfinance institution in India and the Association of Forest Communities in Petén (ACOFOP)[14] which administers a microcredit fund in Guatemala, loan application had to be presented as a package and if there were problems with a member's documentation the group application process was put on hold. Westley (2005) studied four microfinance institutions in the Caribbean and found that loan processing times could take between 1.5 to 5 weeks for first-time borrowers. It is worthy to note that among the four microfinance institutions, those with shorter processing times coincidentally employed group lending strategy and/or loan officers spent 80% or more of their time in the field. Churchill (2000) says it is not unusual for the entire process to take three to four months. According to Westley (2005: 18) reducing the time taken from loan enquiry to disbursement increased the value of credit services to service users and encouraged client loyalty and repayment. The author also observed that two microfinance interventions that imposed greater transaction costs on first time applicants and took longer time to process and disburse loans coincidentally experienced high delinquency rates. However, it is likely that microfinance interventions which processed applications more quickly were also more efficient in the entire microfinance process.

When loans were finally ready, they were usually brought to service users in their community. Service users usually did not need to travel to collect loans. However, in the Small Enterprises Foundation (SEF), a microfinance institution in South Africa, some service

[13] For more on the SDF see website http://66.102.9.132/search?q=cache:-plbwqsMREkJ:sitadevifoundation.in/yahoo_site_admin1/assets/docs/SDF_Microfinance_Methodology-Website.265195032.doc+microfinance+loan+disbursement+process&cd=3&hl=en&ct=clnk&gl=uk
[14] See http://www.fao.org/DOCREP/008/a0226e/a0226e09.htm for more information on ACOFOP

users claimed they dropped out because they had to endure high transportation costs to collect their loans. Transport costs sometimes exceeded interest payments in the case of small loans (Simanowitz, 2000). Loans may be staggered[15] as in the case of the Grameen Bank or all members of a group take loans at the same time.

Subsequent loans required shorter times to process because loan officers did not have to conduct stringent on-site business evaluations. Subsequent loans were disbursed after the previous one had been repaid (Churchill, 2000). Due to the rigid pattern of loan disbursement, microfinance institutions have been criticised for operating without regard to the contexts within which they operate. Johnson and Rogaly (1997) claim while this system can be helpful in terms of being uncomplicated and mechanical, service users take loans when they become available rather than when they require them. In rural areas where there are considerable fluctuations in demand for goods and services, the period when loans are received can be an important determinant of the profitability of loans.

### 2.7.3 Size of Loan

What is the size of a microfinance loan and what determines the size of loans? Various studies have tried to estimate the size of microfinance loans. For instance, Buyske (2004) says microloans range between $300 and $1000. Christen, Lyman and Rosenberg (2003) recommend that only an upper limit should be set for a microloan and that loan size decisions should be based on borrower's character and cash flow. Ledgerwood (1999) also urges microfinance institutions to consider cash flows as well as service users' ability to repay

[15] In the staggered method group members receive loans in stages. Some members of a group receive their loans and if they repay then other members are eligible to take their loans.

loans in determining loan size. Debt capacity[16] rather than credit need[17] is deemed as an important criterion for loan assessment for service users. The socio-economic status of service users and the environment in which the intervention operates (rural/urban) have been found to be important determinants of size of loans. Parsini and Yoskowitz, (2005) and Painter and MkNelly (1999) all found that loan size was positively associated with urban location. Seasonality and market constraints were also found to be important determinants of loan size especially in rural communities. Godquin (2002), in a study in Bangladesh found that wealthy borrowers received bigger loans. Gaiha (2001) also found in study in rural India that wealthier beneficiaries received about twice of what went to the poorer beneficiaries. Level of education and age also showed a positive effect on loan size. WWB (2003) assessed service users' satisfaction with loan size in Bangladesh and Uganda. They found 34% and 27% of service users in Bangladesh and Uganda respectively were dissatisfied with the smallness of loan sizes.

The size of microfinance loans is also determined by the orientation and ideas of microfinance interventions. First, some microfinance institutions provide small loans based on the assumption that it will be demanded by only poorer service users. In other words loan size serves as a proxy indicator for the level of poverty of microfinance service users (Schreiner, 2001). However, Dunford (2002) argues that while it is evident that the poor cannot take large loans, there is no corresponding evidence that only the poor apply for small loans. Better-off service users can and do borrow small loans to ease cash flow problems and to begin additional income-generating activities. In spite of Dunford's finding it is argued that smallness of loan sizes in addition to other mechanisms have been used to prevent the relatively well-off people from hijacking smaller loans destined for poorer people. Hulme and

[16] Debt capacity is the amount of additional debt a service user can bear without running the risk of default.
[17] Ledgerwood says credit need assessment is quite unreliable because it involves self-reported information which contains 'want' that does not take debt capacity into consideration.

Mosley (1996) have noted that other factors such as the very public nature of financial transactions and group meetings significantly contribute to deterring the non-poor from accessing small-sized loans.

Second, many microfinance institutions usually begin with smaller loans and, depending on repayment performance, steadily increase the size of loans. This is called the dynamic incentive strategy (Hulme and Mosley, 1996; Johnson and Rogaly, 1997; Godquin, 2002).
*Safe*Save discovered that an important contributory factor to bad debt was the offering of overly large first loans (Staehle, 2005). In addition to preventing loan default, microfinance institutions make initial small loans and demand the prompt repayment as a means of stimulating productive use of microcredit. This technique is important if bad debt reflects the inability of poor households to make productive use of credit (ibid).

Third, changes in loan size have also been used to measure of changes in level of poverty of service users. For example, Painter and MkNelly (1999) used the ability of service users to work and repay progressively larger loans as a proxy indicator for viability of service users' income-generating activities and reduction in poverty. This method of assessing impact of microfinance intervention has been much criticised. The use of dynamic incentive strategy by most microfinance interventions makes it difficult to ascertain whether increased size of loans was due to routine increment (dynamic incentive) or as a result of viability of service users' income-generating activities or reduction in poverty. Loans, on the other hand, are known to be used for other purposes other than income-generating activities and therefore increased demand for loans might not be linked to business viability or reduction in poverty.

In sum, there seems to be no consensus on what constitutes the optimum size of a microfinance loan. The size of a loan should depend on the context. Since microfinance services are offered to poor people who have no access to orthodox financial services, loans are likely to be relatively small. Wealthier service users are more likely to demand bigger loans and so are urban dwellers. Small-sized loans have been used as instruments to prevent default, target the poor, and controversially measure changes in level of poverty.

### 2.7.4 Loan Use

Concerning loan use, most microfinance interventions provide loans primarily for investment and generation of wealth. This is the promoted purpose of microfinance loans. Empirically, microfinance loans are used for income-generation and a host of other purposes, the most notable being for consumption. Case studies reviewed by Johnson and Rogaly (1997) revealed that loans were routinely used to pay school fees, to repay other loans and for consumption. The poor have been found to use loans to smoothen consumption in many developing countries (Hulme and Mosley, 1996). According to Buss (1999), because money is fungible service users divert money away from income-generating activities. The most common of these is what he calls loan substitution where loans replaces existing business capital and releases this for other expenditure including loan recycling. While it is generally agreed that service users routinely use their loans for non-business purposes, few studies have looked at the effect of loan diversion on loan repayment or on poverty reduction. Using econometric and qualitative analysis in a case study in Ethiopia[18], Abafita (2003) found that loan diversion was an important and significant factor that negatively influenced loans repayment in rural communities.

[18] Jemal Abafita studied the Oromia Credit and Savings Share Company in Kuyu town in Ethiopia

Especially in rural areas, how service users have employed their loans has depended on seasonal fluctuations and subsequent changes in demand for goods and services. Service users have also been found to use loans quite flexibly: for occasional income-generating activities; for social investments; children's education; and consumption. It could happen that the person dealing with the microfinance intervention will not be the person using the loan (Johnson and Rogaly, 1997; Balkenhol, 2007). Wright (1999a:4), on the other hand, argues that service users endeavour to spread their risks:

> The poor are too smart and too risk-averse to put "all their eggs in one basket" and invest exclusively and heavily in one enterprise. They are managing their portfolio of income generation activities and looking to minimise risk, so that if activity or "enterprise" fails, it only has a limited, manageable impact on total household income.

### 2.7.5 Loan Repayment

Service users generally repay loans from profits that accrue from investment of microloans in income-generating activities. Other studies have found that service users repay loans not only from their productive ventures but also rely on relatives, friends and on their peers. Rutherford (2000) argues that surplus and savings generated from household's overall productive strategies tend to be the main source of loan repayment.

Loan repayment patterns, like disbursement, follow a strict regimen. Loans are usually repaid in weekly, fortnightly and monthly instalments. The reason for this strict repayment regime, according MkNelly and Kevane (2002), is to inculcate fiscal discipline into borrowers. In reality such repayment schedules are more important for ensuring high repayment rates than for any other reason. Do repayment patterns affect repayment rates? Field and Pande (2008) conducted a randomised experiment in urban India to assess whether repayment schedules affected repayment rates. Service uses were randomly assigned to weekly and monthly repayment schedules. It was found that there was no statistically significant difference between weekly to monthly repayment rates. In view of the findings the authors argued that increasing the period of repayment (i.e. from weekly to monthly) will reduce transaction costs for the microfinance institution. It can also be argued that it will also reduce the transaction costs for service users as well. Service users have complained about loss of productive time when they had to attend compulsory weekly meetings to repay loans (Johnson and Rogaly, 1997).

Jain and Mansuri (2003) suggest that the use of tightly structured instalments starting soon after loan disbursement puts service users at a disadvantage. Such repayment schedules are not suitable for the rural poor who usually make the bulk of their incomes seasonally. Service users desire flexible repayments arrangements which coincide with fluctuations in their incomes. For instance, informal lenders usually allow flexible repayment schedules often permitting repayment at periods to coincide with periods when borrowers come into money such as during harvest periods. It is this flexibility, perhaps, that enables moneylenders to survive even in areas where microfinance institutions abound. Buchenau (2003) described two regulated microfinance institutions, Caja Los Andes in Bolivia and Financiera Calpia in El-Salvador, which operated credit products for rural households and allowed for flexible repayment tailored to the expected cash flows of individual households. In assessing borrowers' repayment capacity, the two interventions considered the future cash income and expenditures of households' basket of different economic activities to determine payment capacity and a payment schedule. In addition Hickson (1997) commented on the popularity of a flexible loan product in the Qinghai Community Development Project (microfinance scheme) in China. Nearly all service users opted for this loan product whose principal did not have to be paid until the end of the loan term. Interestingly most service users paid off loans before they fell due. Grameen Bank has realised the importance of permitting flexibility in loan repayment and had introduced variable repayment schedules under the new Grameen II. However, Rutherford (2006) observed that this strategy was hardly being implemented because staff perceived this new scheme as being too cumbersome and complicated to implement and therefore discouraged the use of the facility.

In a contrasting picture, Mknelly and Kevane (2002) provide a stark instance of mismatch between standardised repayment terms and economic opportunity in Nagereongo, a village in Burkina Faso. Although it was evident that onion farming was very profitable, the monthly repayments required by the microfinance institution were not conducive to the activity. Onion farming was profitable if onions were stored for between four and five months after harvesting (when prices were higher). The loan repayment schedules were such that the women had to sell onions just after harvest when prices were low in order to repay loans.

### 2.7.6 Loans and Poverty Reduction

The idea of enabling the poor to have access to loans is based on the virtuous cycle principle: 'low income, investment, more income, more credit, more investment, more income' (Hulme and Mosley, 1996:122). It is assumed that credit will be used for productive purposes and would generate additional income for borrowers. Thus, the provision of credit came to be perceived as an important mechanism for reducing poverty and has even been described as a crucial element in the achievement of the millennium development goals (MDGs). Loans invested in income-generating activities should reduce income poverty if businesses are profitable. Loans used for consumption prevent the poor from falling further into poverty and thus make them less vulnerable (Hulme and Mosley, 1996). Being less vulnerable implies that the poor people have increased capability to invest in more risky but potentially profitable investments.

Does successful loan repayment imply poverty reduction? The fact that borrowers have been able to successfully repay their loans does not automatically imply a reduction in their level of poverty. Evidence from Peru indicates that some group-based microfinance interventions resort to severe sanctions to achieve high repayment rates (Marr, 2003). It is not uncommon to find service users selling off assets or borrowing from multiple financial sources (moneylenders and/or other microfinance institutions) to pay off microloans (Copeland, 2009). This practice leads to the danger of a debt spiral where borrowers get deeper and deeper into debt. According to Marr (2003), these practices hit the poorest and the vulnerable the hardest, increasing poverty and undermining the foundations of the microfinance interventions. For this reason, extreme caution needs to be exercised in the use of repayment rates as a proxy for poverty reduction or increase in incomes.

Is there any empirical evidence of access to loans resulting in poverty reduction? Very few studies have assessed the effect of loans on poverty because it is difficult to isolate the impact of loans out of the many factors in a microfinance intervention that can potentially affect poverty. In other words microfinance encompasses more than loans, even the minimalist institutions. Osmani (1998) observed that access to credit brought only partial improvement in women's well-being because of the low absorptive capacity in poor communities. Zaman (2000) has argued that the impact of income poverty depends on borrowing beyond a certain threshold.  For example, consumption information from 1072 households in the BRAC showed that the largest effect on poverty was evident when moderate poor BRAC service users borrowed more than 10000 taka ($200) in cumulative loans.

Have loans helped to create jobs given that employment is key to attain the millennium goal of halving poverty by 2015. Balkenhol (2007) concedes that direct employment generation is not an explicit goal of microfinance but microfinance institutions invariably include it as one of their objectives. Evidence suggests that microfinance mainly affects self employment and unpaid household labour and has very little effect on wage employment outside of the service user's household (ibid). Hulme and Mosley (1996) also reached the same conclusion; they observed that loans had very limited impact on employment outside the household. Higher employment impacts were only found in rapidly growing formal economies (such as Indonesia).

The general consensus is that well-off borrowers are more likely to benefit from microfinance than the poor. For instance, after an exhaustive study of 13 microfinance institutions (including BRI, Grameen Bank, BRAC, TRDEP, BKK, K-REP, BancoSol, and SANASA), Hulme and Mosley (1996) concluded that the impact of loans on service users' income was positively related to the service user's income. Hulme and Mosley (1997:102) explain that 'those with higher incomes have a greater range of investment opportunities, more information about market conditions and can take more risk without threatening their minimum needs for survival.'

The empirical evidence of loans on poverty has not always been positive. Hulme and Mosley (1996) argue that loans can induce economic activity to the extent that the rate of return falls below the cost of borrowing. The authors also believe there is considerable underreporting of credit-induced crisis in most studies of finance for the poor. On the extreme end, Shiva (2004) and Sharma (2006) reported that commercial microfinance loans had ensnared several thousands of very small farms into a downward spiral of dependency and growing debt with an estimated 160,000 farmer suicides since 1997 in India.

In conclusion, it is evident that loans constitute the backbone of microfinance. How loans have been provided has been influenced by the issue of fungibility of credit. Although empirical findings indicate loans are used for a myriad of purposes, most microfinance institutions endeavour to find ways of ensuring loans are used for productive purposes. Loan disbursal and repayment patterns were found to be regimented. Such ritualised patterns do not usually match with business cycles and cash flows patterns of especially rural service users. The size of microfinance loans have been used in conjunction with other techniques to target the poor, ensure the high repayment rates and controversially measure changes in poverty of service users. Not much empirical work is available on the effect of loans on poverty because of the problem associated with isolating the effect of loans in an intervention. However, many theoretical propositions posit a positive relationship between income levels of service users and poverty reduction.

## *2.8 How useful are Emergency Loans?*

Users of microfinance interventions are generally poor and vulnerable. The poor are vulnerable because they face a wider variety of risks and shocks and they have fewer resources to rely on (Kabeer, 2005). In the context of this insecure livelihoods and limited options, poor service users require financial assistance that enables them to mitigate their vulnerability (ibid). Why not use regular loans to reduce risks of service users? According to Churchill (2003b) while microfinance loans can reduce service users' vulnerability by increasing incomes and assets, it is not an effective means of managing risks. Loans are unsuitable to address households' short-term cash requirements. Churchill argues that emergency loans are important complements to microfinance loans, 'providing safety nets to low-income households to resist the downward pressures of economic stresses....' (ibid: 2). Emergency loans assume a more important role during periods when disasters or crises affect the entire community so that other potential sources of assistance are also affected. As well as using emergency loans for reducing vulnerability, access to emergency loans can enable service users to seize market opportunities.

Emergency loans are in effect financial instruments that improve service users' ability to mitigate shocks and risks. This study considers emergency loans as any small amount of money that is immediately available to mitigate risks and shocks and repaid in a relatively short period (Churchill, 2003b). In addition to loans specially designated for crises, emergency funds also include service users' savings that microfinance interventions permit them to borrow for short periods. Hulme and Mosley (1996) refer to emergency loans as rapid-access consumption loans.

### 2.8.1 Factors Warranting Emergency Loans

What risks and shocks warrant the need for emergency loans? Churchill (2003b) classifies the risks and shocks that perpetuate the poverty cycle into three categories:

- Economic stress— an expected short-term increase in household expenses that cannot be handled by regular cash flows (such as weddings, child births, education and rent).
- Idiosyncratic risk— an unexpected occurrence that increases expenses of a household, or decrease income or both (death, illness, loss of assets and business failure).
- Covariant risk—an unexpected event that results in many households experiencing losses (example, floods, drought and fire).

These three factors above are nevertheless interrelated. For instance, it is known that rural folks in developing countries are mostly in agrarian economies and are likely to eke their livelihood from rain-fed agriculture and allied occupations. These people in recent periods have experienced erratic rainfall patterns which have made them susceptible to covariant risks like drought and floods and thus an increased likelihood of idiosyncratic risks and economic stresses. Experiencing economic stress or idiosyncratic risks reduces poor households' ability to cope with covariant risks.

It is not only service users who benefit from emergency loans; microfinance institutions themselves derive some benefits as well. Microfinance interventions reduce default rates when emergency loans they provide enable service users to recover from shocks sand continue with loan repayments (Cohen, 1999). Contributing to the argument, Churchill (2003b) says that the need for emergency loans is couched in logical simplicity: targets of microfinance interventions, the poor, are usually vulnerable and less able to cope with risks. Taking a loan in itself is a risk and if borrowers are vulnerable then the lender is vulnerable too. When the poor have access to emergency loans they are protected from risks which renders them less vulnerable. This implies that emergency loans reduce risks to the lender and helps maintain a positive credit relationship with borrowers.

### 2.8.2 To What Extent do Service Users Value Emergency Loans?

Emergency loans are highly valued by rural service users because access to credit during times of emergencies is an important means of overcoming hardship and stabilising the household economy of poor families (Buchenau, 2003). Emergency loans are in high demand by poorer and more vulnerable households and are deemed to be a significant addition to the survival strategies of such households (Hulme and Mosley, 1996). For instance, members of

SANASA reported that emergency loans helped them to cope with contingencies (such as paying up costs of essential social obligations, medical expenses) at a lower cost than alternative coping mechanisms like mortgaging crops land or labour, sale of assets or borrowing from a moneylender (ibid).

The important role of emergency loans in managing risk is made evident in an empirical study in Zambia. A study by Manje and Churchill (2002) to assess the demand for risk-managing financial services in Zambia revealed that micro-entrepreneurs exhibited a strong preference for accessible savings facilities and emergency loans to enable them cope with risk rather than insurance. The study showed that the most respondents were not comfortable with insurance or did not understand it.

### 2.8.3 Why Microfinance Institutions are reluctant to offer Emergency Loans

It is pertinent to note that while many microfinance institutions acknowledge the importance of providing emergency loans, only few institutions have put into place specific products to deal with economic stress and idiosyncratic risks that poor households encounter (Buchenau, 2003). Churchill (2003b) gives two reasons why microfinance institutions have ignored emergency loans. First, the most common concern has to do with the perceived risk of giving out loans not meant for income generation. Most microfinance institutions are apprehensive that service users cannot repay emergency loans because they are not typically used to generate additional revenue. Such loans are perceived as unsuitable and thought to contribute to over-indebtedness by enticing service users to spend beyond their means. Second, microfinance institutions are reluctant to offer emergency loans because they do not usually fall under the joint liability methodology and therefore means of enforcing repayment are not usually clear. The case of the Grameen Bank illustrates the reluctance of microfinance institutions to provide emergency loans. Although, Grameen I had included an emergency loans scheme under their group fund which was funded by a 5% charge in loans over Tk1000, Hulme and Mosley (1996) observed that Grameen service users were unhappy about the minimal disbursements from this account. However, under Grameen II, the revised Grameen model introduced in 2001, the group fund, including the emergency loan scheme was scrapped.

If emergency loans have been provided at all interest rates on them have been relatively high or the amounts have been insignificant. For example, SANASA in Sri Lanka charges about three times the normal interest rates because of the high demand for that type of loan (Hulme and Mosley, 1996). The Shakti Foundation[19], a microfinance institution in Bangladesh, claims to give interest-free emergency loans to all members affected by crisis. However the maximum amount of loan service users were eligible for is a paltry 1000 *taka* (£10).

### 2.8.4 Emergency Loans and Poverty Reduction?

From the forgoing discussion it can be deduced that the major role played by emergency loans is what Hulme and Mosley (1996) call 'protectional.' Emergency loans prevent service users from retrogressing into poverty by reducing the vulnerability of service users. By reducing their vulnerability service users will be in a position to invest microloans in risky but more profitable income-generating activities.

[19] More information on the Shakti Foundation can be found at http://www.bwtp.org/shakti.html

## 2.9 Savings

The introduction of savings facilities into microfinance interventions has generated a lot of interest and debate in recent years (Robinson, 1997; Elser, Hannig and Wisniwski, 1999; Richardson, 2003; Harper and Vogel, 2005). From a historical perspective, the perception of the poor as being too poor to save resulted in the neglect of savings as a financial instrument for poverty alleviation (Wisniwski, 1998). The importance of savings to the poor began to emerge during the early 1980s when empirical evidence exploded the idea that the poor could not save and could not take advantage of saving facilities (Adams and Graham, 1981). It is now known that the poor have to, can and do save and even pay others to take their money for safe-keeping in schemes such as the *susu* (Rutherford, 2000). The capability of the poor to save is buttressed by overwhelming empirical evidence that the poor all over the world save in different forms and for a variety of reasons. Wenner et al. (2003) makes a cogent argument for the provision of savings facilities to the poor in developing countries especially those in rural areas. He contends that in most developing countries commercial banks, which usually have the mandate to mobilise savings, have not entered rural credit markets on a substantial scale and after financial liberalisation most of the commercial banks have actually closed most of their rural branches. Zeller (2003) believes there is much hope for microfinance institutions stepping in and expanding rural savings as a result of more favourable macroeconomic and political conditions in many developing countries that undertook structural and financial sector reforms.

The rest of this section examines the reasons and mechanisms through which poor people save. Next it reviews the state of knowledge on what the poor demand with regard to institutional saving facilities. Finally, it strives to unravel the effect of savings on poverty reduction.

### 2.9.1 Why do the Poor Save?

Why do the poor who barely have enough to subsist on have to save? Although being poor implies the lack of money, the poor have to save for a myriad of reasons. The poor save because they require small amounts of money to finance daily livelihood activities and to smoothen consumption due to seasonality and unemployment (Johnson and Rogaly, 1997). The habit of saving tends to be more important for the financing of subsistence agriculture where investment requirements and the bulk of incomes are generally seasonal (CGAP, 2001). The poor save to accumulate large lump sums for what Rutherford (2000) categorises into lifecycle events, emergency needs and investment opportunities. First, regarding lifecycle events, the poor require lump sums of money for events such as childbirth, marriage, education and festival celebration which can be very costly. Second, the poor save for emergencies (personal and impersonal) which could result in the unanticipated need for large sums of money. Personal emergencies include sickness, death and unemployment while the impersonal consist of events such as war, famine, famine and floods. Third and finally, poor households save to accumulate large sums of money for investment opportunities such as purchase of agricultural implements, buy land, housing material and other productive assets. A study in rural Bangladesh by Maloney and Ahmed (1998) revealed that the most important reason for saving was to buy land followed by the objective of providing family security against unforeseen contingencies. Savings facilities are evidently very important for the poor and this is reflected in a study in Uganda where 57% of respondents claimed that the secure and convenient place to save was more important than ability to acquire loans (Deshpande, Pickens, and Messan, 2006).

### 2.9.2 How Do the Poor Save?

It is now known why the poor save but how do they do save? Savings facilities for the poor can be broadly categorised into two: formal and informal. Informal savings include arrangement such as savings in kind, door-to-door deposit collections (*susu*), ROSCAs, ASCAs, trade savings among others. They are called informal because they are usually relationship-based and involve very minimal or no record keeping. Formal savings also known as institutional savings generally refer to regulated and non-regulated financial institutions such as commercial banks and financial NGOs.

#### *2.9.2.1 Informal Savings Arrangements*

It is known that traditionally poor households save in kind as well as in cash. They hold their savings in assets including livestock, grain, jewellery or land. These assets constitute a form of insurance against crisis such as drought and can be sold or pawned in times of emergency or crisis (Johnson and Rogaly, 1997). People save to buy assets such as land which are sometimes used as collateral for loans. However, given the opportunity, the poor prefer to save in cash due to the susceptibility of in-kind savings to problems of divisibility, security and convenience (ibid). In Uganda for example, informal savings arrangements consisted of savings in kind, usually in land and livestock; participation in ROSCAs, ASCAs and similar groups; using a money guard (a trusted family member or individual); and saving cash in the home (Deshpande et al., 2006). Two other studies (Wright, 1999a; and Vonderlack and Schreiner, 2002) have examined the savings habits of poor people. The poor were found to sometimes keep cash hidden in the home for emergency use, or lend to others with the view of receiving a reciprocal gesture in times of need. In an in-depth study of 42 households in rural and urban Bangladesh, Rutherford (2002) found that savings at home was the most frequently-used savings mechanism. The poor would give money to trusted people like shopkeepers and other traders for safekeeping without expecting any interest payment.

What do the poor like about informal savings arrangements? Informal savings have the advantage of being adaptable to the circumstances of the savers. For instance, the savings collector (*susu* collector) maintains a personalised relationship with the saver and acquiesces to some flexibility in payment of deposits. Again, for instance, moneylenders are quite flexible when it comes to loan repayment (loans may not accrue further interests after the loan is overdue). Informal savings involves low transaction costs and instills discipline (for example RoSCAs). In spite of these advantages, informal savings suffers from insecurity, impermanence, and the inability to serve large numbers of the poor. Woolcock (1999) argues that informal savings such as RoSCAs and *susu* may provide some measure of short-term assistance but do not sufficiently diversify risk and are not appropriate for larger-scale projects. Wright (1999a) has described most informal savings schemes as self-liquidating. For example, a RoSCAs may end when people who have already received their RoSCA pool fail to pay their contributions. Savings collectors (*susu* collectors) are known to abscond with savings of their clients. For example, Aryeetey and Gockel (1991), in a study in Ghana, noted that about 40% of savers had lost their money to a defaulting *susu* collector and almost 80% knew of someone who had lost money the same way in Ghana. Informal savings institutions lack the resources to cater for the immense demand for savings facilities by the poor. It limits the poor people's response to unpredicted crisis requirements, flexibility in payments (inability to pay due to problems and increased ability as a result of windfall) and to build up larger sums of money. Institutional savings schemes have the ability to overcome most of the problems encountered by informal savings arrangements.

#### *2.9.2.2 Institutional Savings Facilities: What the Poor Want*

Institutional savings facilities offer important tools for efficient liquidity management. The advantage that institutional deposit facilities show over informal savings is a good mix of accessibility to cash, security, rate of return and divisibility of savings (Wisniwski 1998). Empirical evidence indicates that institutional savings facilities are in high demand. For instance, at BRI savings accounts outnumber loans by 6 to 1 and while at Bank Dagang Bali the ratio of savings to loan accounts was 30 to 1 (Mukherjee, 1997). It can be argued that savings accounts outnumber loan accounts because loans unlike savings are rationed. In spite of this there is evidently a high demand for savings facilities among the poor. What features do the poor look for in institutional savings schemes? Studies such as Wright, (1999a); Armendariz de Aghion and Morduch, (2005); and Deshpande et al., (2006) agree that service users want accessible, convenient and secure savings facilities. The role of interest rate as a determinant of demand for savings is however contested

***Accessibility of Savings***

Easy accessibility to savings for liquidity management is an important determinant of savings for poor households. Especially for emergency purposes, depositors need highly liquid schemes and the reassurance that they will have access to their money when it is required. Wright (1999a) has observed that although the majority of the poor require liquid savings schemes, they make do not make frequent withdrawals. What they appreciate is the option to withdraw whenever they want. While there is a general consensus that liquidity is key to local savings mobilisation, it is important to note that in many circumstances the poor have a strong illiquidity preference. Because it takes the poor considerable effort to save due to the myriad of demands on their incomes, they welcome some form of measures to prevent them from frequently accessing their deposits. Wright (1999a) observed that women in particular require savings mechanisms that prohibit them from withdrawing in response to trivial needs or frivolous spending and to fend off demands from relatives and friends requesting for loans.

***Security***

Poor households require safe and secure microfinance institutions to entrust their savings and it is the most important feature service users require in savings schemes (Elser et al., 1999; Vonderlack and Schreiner, 2002). Poor households' demand for saving facilities is contingent on their confidence in the microfinance institution's ability to protect their deposits. Institutions that have been in business for a long period are more likely to attract savings. In member-owned microfinance institutions in Uganda, perception of security of savings was highly dependent on the honesty of managers. Service users also equated modern, strong-looking physical structures with stability (Deshpande et al., 2006). According to Wright (1999a) secure savings, in theory, is a key criterion of demand for savings but in reality the poor do not often have secure options: they often have to transact business with banks they often perceived as risky and unreliable. Evidence is replete in developing countries (especially in Africa) of failure of banks. However, compared to informal savings arrangements, institutional savings facilities are safer. For instance, in a survey of 1500 people in Uganda, 99% of respondents who saved using informal arrangements had lost some money compared to 26% in institutional savings facilities (Deshpande et al. 2006).

***Convenience***

Service users require convenient institutions in which to save. The poor prefer institutional savings facilities that allow them to save and withdraw variable sums of money as frequently as possible, not be burdened by paperwork and other transaction costs, and transparent in a manner in which they are able to understand (Wright, 1999a; Rutherford, 2000). Service users prefer saving facilities to be close to them and also short transaction times. Aryeetey and Gockel (1991) suggest that the reason why *susu* collectors are so popular in Ghana is because they go their clients' place of business and transaction time takes approximately 30 seconds compared with 15 minutes or more in a bank for a similar transaction.

***Interest Rates***

The general perception in microfinance studies is that the level of interest rate is not an important determinant of the propensity of the poor to save with microfinance institutions. Dupas and Robinson conducted a randomised field experiment in rural Kenya. They found even though the savings scheme did not pay any interest but rather included a substantial amount of withdrawal fees, usage of the savings facility was high among women. A similar situation occurred in Indonesia when the BRI introduced the 'village savings' in 1986. Although BRI paid no interest on small deposits and relatively less interest rates on larger deposits the scheme quickly became very popular (Armendariz de Aghion and Morduch, 2005). Zeller et al.'s (1997) review of empirical evidence support this perception. The studies reviewed are silent on the extent of competition for savings of service users. Wright (1999a) has observed that where credible options exist, the poor are sensitive to interest rates in savings.

#### *2.9.2.3 Institutional Savings Facilities: What Microfinance Institutions Provide*

From the previous section, it is now known what service users require in savings facilities. What savings services do microfinance institutions offer? In providing savings facilities, microfinance institutions have to play a role quite the opposite of that of providing microloans. This time, unless with compulsory savings schemes, microfinance institutions have to exhibit confidence, permanence, flexibility to compel the poor to entrust them with their savings (Wright, 1999a). In other words they have to prove they are capable of meeting the savings requirements of the poor discussed above. In practice, however, due to the inability of savings facilities to meet demand, and some savings schemes being compulsory, microfinance institutions enjoy huge patronage irrespective of their status. Savings facilities provided by microfinance institutions can be classified under compulsory, voluntary and mixed.

***Compulsory Savings Schemes***

Compulsory savings form the largest number of savings facilities in the microfinance industry. The reason for the ubiquitousness of compulsory savings stems from the fact that most microfinance institutions are NGOs who are barred by legislation from mobilising savings from the public (CGAP, 2001). Microfinance institutions' only means of adding savings facilities to their interventions is making compulsory savings a condition for accessing loans. Compulsory savings are linked to loans and members are usually required to save for a certain period before receiving any credit and usually must to continue to save as long as they conduct business with the microfinance institution. Most microfinance institutions consider compulsory savings as some form of collateral and service users can only withdraw their accumulated savings when they decide to leave the intervention permanently.

Compulsory savings have some benefits both for the institution and service users. First, the regularity of initial saving deposits can act as a screening device by providing lenders with free information about borrowers who are likely to repay (Hulme and Mosley, 1996; Dowla and Alamgir, 2003). Second, compulsory savings can instil thriftiness and discipline among service users. Microfinance institutions implement compulsory savings, perhaps, based on the assumption that the poor must be taught the discipline of saving (Rutherford, 2002). Third, compulsory savings serve as a reliable source of capital for microfinance institutions, permitting them to meet substantial demand for credit. Members' savings constitute about 36%, 25%, and 16% of outstanding loans for Grameen, BRAC and BURO-Tangail respectively (Dowla and Alamgir, 2003).

Compulsory savings schemes allow female borrowers to protect their savings in patriarchal societies where all household finances are likely to be controlled by husbands and other family members. 'Through the vehicle of compulsory saving, women members can legitimise their savings instead of stashing it away secretly' (Dowla and Alamgir, 2003; 976). Arguing in favour of compulsory savings, Wright (1999a; iv) says that compulsory savings satisfies the demand for illiquidity preference and states; "This 'illiquidity preference' is in response to the poor household self-imposed need for structured and committed savings mechanisms that prohibit them from withdrawing in response to trivial needs or frivolous spending and allow them to fend off the demands of marauding relatives requesting loans or assistance."

The downside of compulsory savings facility is that it attracts far less deposits: it excludes non-members and members usually only deposit the minimum amount required. According to Wright (1999a), there is evidence that compulsory savings, especially those that are deducted from loans issued, are simply perceived as the cost of credit and are almost universally unpopular among clients in Bangladesh.

***Voluntary Savings***

In most developing countries the introduction or the movement from compulsory to voluntary savings schemes is an indication of improvement and maturity. This usually implies that the institution has achieved financial capacity to effectively ensure the security of deposits and meet legal financial requirements. By emphasising voluntary savings, the linkage between savings and credit, resulting in the poor considering such savings as a cost of credit is broken and savings can then be perceived as a service.

Poor households tend to be attracted to and save more with voluntary savings facilities (Kabeer, 1998; Wright, 1998). Empirical evidence indicates that voluntary savings are more successful with regard to outreach and volume of savings than compulsory savings (Wisniwski, 1998). For example, according to Wright (1999a) all BRI customers save and only one in six is a borrower at any one time. As of December 1996, there were 16.1 million savers (who had saved $2.7billion) against 2.3 million borrowers (with loans of $1.7 billion outstanding). With the Bank Dagang Bali, the ratio of savings to loan accounts was over 30 to 1 (Robinson, 1997). The reason for this huge demand for voluntary savings accounts, according to Robinson, is the notion that most microfinance service users want to save all the time while most are willing to borrow only some of the time. It can however be argued that the rather large disparity between savings and loans accounts is because loan disbursement represents a far greater risk to microfinance institutions compared to receiving deposits. It is therefore prudent for microfinance institutions to reduce risks by encouraging deposits rather than giving out loans.

The ability of microfinance institutions to mobilise voluntary deposits and perform efficiently invariably depends on a stable macro-economic, regulatory, and the political commitment (Mukherjee & Malhotra, 1997). However, evidence from URAC[20] in Mexico has demonstrated that voluntary savings can work well even in the presence of high inflation

[20] URAC means Union Regional de Apoyo Campesino and it is a microfinance institution based in Tequisquiapan in the Mexican state of Queretario.

(Johnson and Rogaly, 1997). Voluntary savings do not work well when they are tied to loans, that is, when they can be used to defray debts of service users. Hulme and Mosley (1996) advocate a complete separation of voluntary savings from loans. In summing up the conditions for successful voluntary savings mobilisation, Carter et al. (2004) advocate for appropriate macroeconomic conditions, regulatory environment and supervisory capacity. They further advise donors and governments to invest in expanded regulatory capacity, support appropriate adjustment of laws and regulations and show the potential contribution to economic growth that expansion of savings can bring.

***Mixed Savings***

It is also common practice for microfinance institutions who routinely offer voluntary institutional savings to adopt informal savings strategies. Some institutions, for example the First Allied Savings and Loan Limited[21] in addition to accepting savings employ the *susu* scheme to mobilise savings from the public. Rather than charge interest on daily collection as is done by the traditional *susu* collectors, the First Allied Savings and Loans Limited pays interest on monies collected. Many rural banks in Ghana currently operate *susu* schemes.

It is possible to have voluntary savings facilities that incorporate some aspects of structured and regimented saving mechanisms akin to compulsory savings (example Buro Tangail and Grameen II). Depositors pay in monies at agreed periods and they are not permitted to make any withdrawals for a certain period of time. Fixed deposits and contractual savings agreements fall within the compulsory-like savings schemes. In sum, by offering mixed savings schemes, microfinance institutions cater to the diverse savings needs of the poor.

[21] First Allied Savings and Loans Limited is a regulated, non-bank financial institution in Kumasi, Ghana.

### *2.9.2.4 Implications of Institutional Savings for Poverty Reduction*

Very few studies have assessed the effect of institutional savings on poverty reduction. Chen and Snodgrass (1999) assessed the effect of savings on service users and found that borrowers-only had higher median incomes compared to savers-only. Wright and Mutesasira (2001) concede that savings facilities play a vital role in the management of business and the household. In a randomised field experiment in rural Kenya, Dupas and Robinson (2009:1) found that savings accounts had 'substantial positive impacts on productive investment levels and expenditures for women but no effect for men.' Further findings of from Dupas and Robinson's study also suggest that unlike the control group, the treatment group did not draw down their working capital to mitigate household health shocks. The study, however, does not indicate whether service users had access to their savings.

The study argues that savings schemes are more likely to erode poverty of they meet the expectations and demands of service users. Mukherjee (1997) observed that some microfinance institutions, Bank Dagang Bali, BRI, and BancoSol all offer savings that meet specific levels of demands for security, convenience of location and choice of facilities of different mixes of liquidity and returns. Most of the microfinance institutions especially those in Asia (Grameen Bank, Buro Tangail, Save BRI and the Bank Dagang Bali) have transformed their savings facilities (Wright, 2010). For example after restructuring its savings products under the Grameen II, Grameen Bank provided a wide range of flexible services (public deposit services, extended member deposit services and improved loan contracts). Wright reports that the results of the changes have been impressive. Although Grameen took 27 years to reach 2.5 million members, it was able to triple that number after the full establishment of Grameen II.

> Even in Bangladesh's fiercely competitive environment Grameen in 2004-2006 continued to grow at a remarkable rate attracting around 140,000 new members each month – a staggering 1.7 million new members every year. In the three years to December 2005, Grameen's deposit base tripled and its loans outstanding doubled …. Drop-outs returned, and even some old defaulters repaid and re-joined (Wright, 2010: 7).

In conclusion, it is evident that the poor indeed save to negotiate their complex livelihood strategies. It is also clear that savings is an important financial tool for the poor and they even pay others to take their savings. Traditional forms of savings have limitations which institutional savings schemes can mitigate. Institutional savings schemes enjoy immense patronage leading to a debatable conclusion that the poor have greater affinity for savings schemes than microloans. The poor have demonstrated that they require savings facilities that are accessible, convenient, secure and debatably, yield high interest rates. Most microfinance institutions who are NGOs provide only compulsory savings schemes because they are constrained by financial regulations. It is evident that the poor require diversity of institutional savings schemes that are in tune with the diversity of their needs: products that can satisfy short, medium, and long-term needs, in addition to schemes that are adapted to meet their cash flow patterns. The effect of savings on poverty is has not been researched much but the few studies point to a positive relationship between savings and reduction in vulnerability.

## 2.10 The Interest Rate Question in Microfinance

The issue of interest rates for microfinance loans seems to be over-discussed yet empirically under-explored, especially with regard to rural microfinance (Buchenau, 2003). Microfinance institutions have to determine the interest rate to charge on loans and the decisions they make are usually contingent on observations and assumptions about their clients, past occurrences and on their objectives, both explicit and implicit (Wright and Alamgir, 2004; Armendariz de

Aghion and Morduch, 2005). The interest rate question is encapsulated by the subsidy/market interest rate debate and the focus of this section is on the relationship between the microfinance institution and the service user. This section seeks a deeper understanding of interest rate debate because it constitutes an important subject in microfinance especially relating to its potential effect on poverty.

### 2.10.1 Subsidies Disaggregated

Subsidies are provided to microfinance institutions and/or service users. For microfinance institutions, subsidies are financial support offered through direct payment or through indirect means in the form of grants, concessionary loans and technical assistance to the microfinance institutions themselves. To microfinance service users, subsidy usually refers to the receipt of support for non-financial services or credit at below-market interest rates. Armendariz de Aghion and Morduch (2005: 245) argue that the adage that says 'subsidise the institution and not the borrower' does not make sense because any subsidy to the institution entails fewer costs being passed on to the borrowers. On the contrary, it can be argued that under certain circumstances such as under a monopolistic condition, microfinance institutions can absorb subsidies without passing any down to service users. As stated in the introduction, the interest of this study primarily lies in subsidies that flow from microfinance interventions to service users. Subsidies have acquired a rather negative image in the microfinance industry. What has informed the generally negative perception of subsidies?

### 2.10.2 Subsidies: An Anathema?

The negative image of subsidies in the microfinance literature can mainly be found in its historical antecedents. In the past decades governments and other financial institutions established what were known as Agricultural Development Banks (ADBs) based on the assumption that subsidised credit was crucial for agricultural and rural development and that the poor could not afford to repay loans on market-based interest rates. The main features that characterised these microcredit institutions included the following: they were state-sponsored and entailed considerable government involvement; they provided subsidised loans; and targeted agriculture. Almost all the Agricultural Development Banks failed abysmally and their disaster stories are well documented (Robinson, 1995; Morduch, 2000; Owens and Agabin, 2006). It should however be noted that subsidised credit was not the only culprit for the collapse of Agricultural Development Banks. The ADBs had weak dysfunctional governance structures and internal control mechanisms and excessive political intrusion. People who accessed these loans considered them as political largesse and refused to repay. Most governments almost always forgave these debts for political expediency (Armendariz de Aghion and Morduch, 2005). In spite of the above observation subsidies have been vilified and much of microfinance discourse emphasises a movement away from subsidies. It has also been argued that subsidies in microfinance go against the principles of the neo-liberalist agenda that abhors anything that is believed to distort the market, crowd out capital and only have short-term effects.

On the micro-level, it seems intuitive that subsidies would lower the cost of credit for service users and increase the impact of microcredit on poverty. However, some studies (Robinson, 1995; Armendariz de Aghion and Morduch, 2005) contend that subsidies tend to undermine poverty reduction because only a small number of poor usually benefit because such loans tend to be captured by the non-poor. Microfinance interventions that offer subsidised credit generally face low repayment and limited growth because service users often perceive such loans as gifts that need not be repaid (CGAP, 2002). It is argued that loans may not be employed for productive purposes if they are perceived as gifts. Robinson (2001) argues that because of capital constraints, subsidised credits are effectively rationed. The non-poor then allocate the loans to themselves knowing they may not have to repay them. Robinson gives many examples of the use of loans to buy political support (see Blair, 1984; Malhotra and Fiddler, 1995), and the poor repayment rates of subsidised credit (see Yaron, Benjamin and Piprek, 1997).

Robinson (2001) claims poor borrowers incur high transaction costs due the high demand for subsidised credit. Poor people usually spend long periods of time waiting in queues and return visits. In addition bank staff often demand bribes for the rationed subsidised loans. Subsidised loans also deprive service users of an essential financial service—savings. Microfinance interventions are unwilling to mobilise savings because subsidised loans imply that revenues are too low to cover the operating costs of effective savings mobilisation.

### 2.10.3 Persistence of Subsidies

Subsidies have been vilified because they are seen as part of a package of mutually self-destroying factors: namely political interference, supply-driven and weak institutional structures. However, subsidies continue to be a direct and indirect part of the financial schemes of many microfinance institutions (Schreiner, 2003; Hardy et al, 2003; Khalily, 2004; Armendariz de Aghion and Murdoch, 2005). For instance, the Microbanking Bulletin (July, 2003) reveals that 58 microfinance institutions out of 124 surveyed took some form of subsidy. Some of the subsidised microfinance institutions were highly efficient and even profit-making. Morduch (2005: 3) cites an example of ASA in Bangladesh which 'has implemented innovative cost-cutting management practices… during a period in which it was also receiving soft loans from Palli Karma-Sahayak Foundation (PSKF), a local apex organisation. ASA was modestly subsidized but highly efficient.' Robinson (2001), a staunch advocate of commercial microfinance, concedes that the Grameen Bank, which pursues that poverty lending approach, has successfully reached the poor with government- and donor-subsidised credit services. There is no doubt that Grameen Bank, with good financial practices, has become a microfinance model and is replicated all over the world.

Another important reason why the issue of subsidies still persist is the emergence of social investors, people who are willing to trade profit for demonstrable poverty impact (Morduch, 2005). According to Morduch (2005), subsidies are neither intrinsically flawed nor inherently useful. Their effectiveness is contingent on how they are designed and implemented. Morduch (2005: 1) advocates for subsidies if they can be used to increase the 'scale of microfinance outreach, access to commercial finance, and depth of outreach to the poor.' To accomplish these he calls for the use of what he terms as smart subsidies which recognise hard budget constraints, clear bottom lines and competitive pressure: the same forces that drive efficient outcomes in markets. In an attempt to show the positive side of subsidies, Morduch (2005) cites an example of how subsidies can be used as a means of attracting additional resources (crowding in) into microfinance industry as opposed to the entrenched notion of subsidies crowding out capital. Grameen Foundation offered subordinated debt (form of subsidy) as guarantee for a loan contracted by SHARE (a microfinance institution) from ICICI, a bank in India. In this situation a subsidy enabled the attraction of commercial capital into microfinance. This signifies that subsidies and commercial capital are not always inconsistent with each other: they can be complementary

Subsidised credit can be used to improve the livelihoods of very poor people. As Yaron (1992) raises the 'infant industry' argument in support of the subsidisation of microfinance institutions in the initial stages of their establishment, likewise subsidies can also be used to develop the capacity of the very poor to enable them eventually make use of loans at market interest rates. As some microfinance institutions need assistance in their start-up so do borrowers who in the initial stages cannot reduce their level of poverty with commercial loans and need time to graduate from protectional to promotional poverty reduction strategies (Hulme and Mosley,1996). Morduch (2005) cites an example of BRAC's Income Generation for Vulnerable Group Development (IGVGD) which achieved impressive results by using subsidies to develop the capacity of the very poor to graduate to BRAC's regular microfinance programmes. Interestingly, there was very little evidence of corruption, elite capture and rent seeking in the programme (for more on IGVGD see Hashemi, 2001; Matin and Hulme, 2003).

### 2.10.4 Market Interest Rates

The failure of many microfinance schemes based on subsidised credit programmes spurred the need to ensure sustainability of microfinance institutions. It is argued that one important means of sustaining microfinance institutions was to charge market interest rates on loans (Morduch, 1999a; Armendariz de Aghion and Morduch, 2005). It has also been argued that the ideological shift from state-led development approach to liberalisation or market-driven approaches, including neo-liberalists abhorrence for subsidies, catalysed the movement from subsidised credit to commercial interest rates in the microfinance industry. Charging market interest rates as part of commercialising[22] microfinance was perceived as a means making microfinance institutions profitable and thereby attracts private and corporate capital into the industry. Profitability was expected to engender greater competition and permit the expansion

[22] Commercialisation implies microfinance institutions acting in a more business-like manner, covering the full cost of delivering of services, following sound financial practice, being efficient and exhibiting financial discipline (Sandertine, 2002; Clark, 2004).

of products and services, innovation in methodologies and lower costs (Alindogan, 2002). In addition to ensuring the sustainability of microfinance institutions, being profitable was expected to wean microfinance institutions off donor support and dictates and increase outreach through increased investment. Morduch (2005) argues that profitability does not guarantee access to commercial capital, especially if profitability was deemed a transient situation.

At the micro-level, it is argued that commercial interest rates may engender judicious and profitable use of loans if borrowers recognise that their continued access to financial services is dependent on their rates of repayment. Loans at market interest rates are likely to be less attractive to the better-off and prevent elite capture. This advantage is only likely to hold if there is no excessive demand of microfinance loans over supply. There is a concern that very high interest rates can erode gains that might accrue to service users.

### 2.10.5 Competition and Interest Rates

Buchenau (2003) argues that the idea of recouping cost through interest rates is laudable, especially if it stimulates the poor to employ microloans more productively, and does not significantly reduce the incomes of the poor. This practice accrues benefits to service users and microfinance institutions when it takes place in a free and competitive environment. Microfinance institutions in competitive markets are compelled to improve the quality of their services to protect or expand their market share. Resultant innovations which reduce overall costs can directly improve profitability and increase competitiveness and subsequently result in reduction in poverty if the benefits are passed on to service users in the form of lower interest rates and fees (ibid).

In a study of three countries (Uganda, Bangladesh and Bolivia) which have three of the most competitive microfinance environments, Porteous (2006) reached a conclusion that competition does not necessarily result in lower interest rates. For interest rates to fall there must be sufficiently large microfinance institutions with sufficient incentive and ability to reduce their rates (ibid). Wright and Alamgir, (2006) reached the same conclusion in Bangladesh: the large microfinance institutions usually reduced their interest rates and the other institutions just followed suit. Lapenu and Zeller, (2001) observed that in rural areas in most developing countries in Africa, however, the number of microfinance institutions is too few to engender competition. This is because Africa's has lagged behind in microfinance development and outreach compared with Latin America and South East Asia

### 2.10.6 How Sensitive are Service Users to Changes in Interest Rates?

There is a general perception that service users' demand for loans do not change much when interest rates increase and that microfinance institutions can raise interest rates without losing clients or suffer mission drift (CGAP, 2003; Dehejia, Montgomery and Morduch, 2005; DFID, 2006). Dehejia et al., (2005) argue that service users are not sensitive to increases in interest rates because they have ample surpluses to mitigate the effect of higher interest rates. The forgoing argument is countered by the position that demand does not change much with increases in interest rates due to the overwhelming demand over supply for credit, especially in most rural communities in developing countries.

There is a general impression among sustainability advocates that poor entrepreneurs earn enough to afford interest at market rates and does not significantly erode the gains of the poor. Morduch (2008) claims the microfinance movement is driven by the singular assumption that poor households have high economic returns to capital. Consequently poor households are capable of paying the high interest rates that microfinance institutions charge in order to survive without donor assistance. Several studies support Morduch's argument. CGAP (2002) cites studies in India, Kenya and the Philippines that found average return on investments by micro-businesses ranged from 117 to 847%. Morduch (2008: 3) reports some recent findings that confirm that poor entrepreneurs earn high returns. Returns on male-owned retail businesses in Mexico ranged from 20% to 33% per month. Returns were even higher for businesses identified as financially constrained—70% to 75%. Morduch (2008: 4) next cites a study by Del Mel, McKenzie and Woodruff (2008) in Sri Lanka. This randomized study confirmed findings of the Mexican study: real returns to capital were about 60% per year. Using such findings as basis of charging high interest rates is flawed because the studies have obvious limitations, which Morduch himself concedes. For instance, the studies do not show how they impute costs for own labour. In countries characterized by high unemployment and considerable under-employment, one can easily impute zero price for own labour. Returns to capital will be drastically reduced if own labour is taken into account. Morduch says the studies focus on average returns to capital and conceal the heterogeneity within the population and the fluctuations in returns on capital as a result of seasonality and other factors. Perhaps most surprising of all is the finding that for female-owned businesses average marginal returns to capital was almost zero (Del Mel et al., 2008). Considering that most microfinance service users are women, this finding casts doubt on the validity of the argument on charging high interest rates.

Interest rate sensitivity does vary according to the socio-economic status of service users. Dehejia et al. (2005) conducted a study in the slums of Dhaka in Bangladesh to assess borrowers' sensitivity to increases on interest on loans. Using data from SafeSave (a credit cooperative) the study found that poorer service users were more sensitive to changes in interest rates than the less poor borrowers. This meant that when interest rates increased the bank's portfolio shifted away from the poorest borrowers (ibid). Further analysis suggested that poorer service users reacted to increases in interest rates by borrowing smaller loans more frequently and repaying loans more quickly than before. This finding contradicts the findings of the CGAP (2002) study. The study does not give much information of the context in which the SafeSave operates. For instance, were there any microfinance interventions available to the poorer categories of people? In other words did poorer service users have alternative financial services? This could explain why they borrowed smaller amounts. Not much contextual information is available to throw light on the findings of the study.

Other studies have contradicted the findings of Dehejia et al (2005). Karlan, Kutsoati and Oliver (2007) conducted a randomised field experiment in urban Accra, Ghana, to assess people's sensitivity to interest rate changes. Entrepreneurs were more likely to apply for loans at lower interest rates than at higher interest rates. When the sample was disaggregated along socio-economic lines, poorer service users did not appear to be sensitive to interest rates. Karlan et al (2007) surmised it was probable that the poorer entrepreneurs could not tell the difference between high and low interest rates due to illiteracy. On the other hand, it could be that their profit margins were high enough for high interest rates to significantly affect their demand for loans.

The above studies clearly indicate that poor people's responsiveness to interest rate increases is mixed: it varies in the various contexts. The studies suffer from an important defect; they do not give much explanation with regard to how contextual factors influence service users' observed decisions. In addition, are there other occurrences within the interventions that that affect service users' ability to make informed choices? Do service users themselves have the ability to react to increases in interest rates? The next section attempts to address these questions.

### 2.10.7 Negotiating the Interest Rate Labyrinth

The postulations and arguments about the responsiveness of poor people to interest rates will be incomplete without reference to the complicated nature of microfinance interest rate regimes and poor people's perception of interest rates. Interest rate strategies of most microfinance institutions are notoriously noted for their lack of transparency (CGAP, 2004). First, most microfinance institutions charge flat interest rates such that the interest paid on the loan does not decline as the loan is being repaid. Flat interest rates are usually almost doubled when expressed as annual percentage rates (APR) (Wright and Alamgir, 2004; Harford, 2008). The use of flat interest rates is so common that in an assessment of 640 microfinance institutions that provided information for a study, the CDF Microfinance Statistics (2002) found that over 522 institutions charged the flat rate. The most prominent among these were BRAC, ASA and Buro-Tangail. Microfinance institutions are able to maintain the use of flat rates because microfinance service users are often illiterate and financially ignorant to tell between flat rates and the standard declining interest rates (Wright and Alamgir 2004). Related to flat interest rates and one of the least commented-upon issues is the use of repayment schedules to change effective interest rates. Microfinance loans are repaid daily, weekly, fortnightly, monthly, et cetera. According to Rosenberg et al. (2009), a tweak of the repayment schedule changes the effective interest rates. The tighter the repayment schedule, the higher the effective interest rate.

The second factor that clouds service users' ability to assess the cost of credit is the various charges, fees and deductions demanded by microfinance institutions. Johnson and Rogaly

(1997:52) observed that service users are '...charged loan fees, have to organise 'gifts' for bank staff, and incur transport costs to get there.' These are referred to as the hidden costs of microcredit. Most service users usually do not consider these fees and charges are part of the cost of credit (CGAP 2004). Other charges include compulsory deposits that service users have to make before they receive loans. If they are paid any interest on these deposits at all the interest is usually far below rates service users would have earned if their money were in a conventional savings account. These deposit requirements thus reduce the net cash service users receive as loans and this increases the effective cost of the loans to service users (Rosenberg et al., 2009)

How does the non-transparent interest rate regime affect service users' perception and their choices? An empirical study by Wright and Rippey (2003) provides useful insights to the above question. Wright and Rippey conducted a four-year demand-side analysis of the Ugandan microfinance market, focusing on areas of the market where it was particularly competitive. They found that although service users claimed to take interest rates on loans into account in selecting a microfinance intervention and that interest rates were important to them, in reality it was not so. Qualitative data showed that they did not know the differences in the interest rates charged by the different microfinance service providers. The lack of transparency in pricing services, and lack of clear documentation and communication of effective rates of interest hampered informed choices. Further probing revealed that word of mouth from family and friends was the main factor influencing the selection of a particular microfinance intervention.

Another important explanation of the mixed result of poor service users' sensitivity to interest rates is related to the idea that the concept of interest rates is poorly understood particularly by the non-literate rural poor. Buckley (1997) and Shipton (1992) observed that the concept of interest rates is understood differently in the West African context. West Africans tend to ignore the amount of time elapsed and emphasise the ratio between the amount of interest and principal.

### 2.10.8 Interest Rates and Poverty Reduction

What is the effect of interest rates on poverty? There is surprisingly very little work done in this area. The major hindrance to such assessment is that interest rates rarely vary within an institution. Even if interest rates vary in a microfinance institution across branches such variation might be a result of observed characteristics of service users or context.

Some studies (CGAP, 2004; Fernando, 2006) argue that if interest rates increase but repayment rates and demand for microfinance services do not decline, then that is an indication that poverty is being reduced. In other words, repayment rates and demand for microfinance services can be used gauge the affordability of interest rates. The concern with the use of such proxies is that in rural areas in Africa, for example, which have witnessed little competition among microfinance institutions and where demand for microcredit overwhelmingly outstrips supply, microfinance institutions can increase interest rates without any noticeable reduction in the number of service users. Increasing interest rates may lead to the erosion of the profits of service users (if loans were invested in business) thereby undermining microfinance's the objective of reducing poverty (Dehejia, et al., 2005). Johnson and Rogaly (1997) confirm this line of argument with the observation that when microfinance institutions enjoy monopoly, high commercial interest rates can be a source of exploitation of service users.

The issue of donor support in the microfinance industry needs to be vigorously pursued if it will culminate in the reduction of poverty. It is puzzling why many microfinance institutions are desirous of weaning themselves off donor support when such funds are available and urgently required to fight poverty. Chowdhury (2009: 5) refers to the July 16th edition of the Economist which says:

> Despite growing interest from private investors, 53% of the $11.7 billion that was committed to the microfinance industry in 2008 still came at below-market rates from aid agencies, multilateral banks and other donors.

While the rhetoric of repudiating subsidies continues, many large microfinance institutions such as the Grameen Bank continue to receive subsidy in the form of subsidised credit from government, concessional loans and technical support from other donors. According to Armendariz de Aghion and Murdoch's (2005) estimation, between 1985 and 1996 Grameen Bank received total subsidies of $175 million, both direct and in kind.

To conclude, it can be argued that the subsidy/market interest rate dichotomy is simplistic and does not effectively capture the complexity of the interest rate regime. It will be more productive to conceptualise this dichotomy as a continuum that ranges from highly subsidised to high interest rates. Sandertine (2002) urges microfinance professionals to mull over the idea that borrowers have different needs and requirements in different economic and social contexts and that a more diversified approach to the provision of microfinance is required than what the proponents of commercial or subsidised credit have generally been prepared to accommodate. Instead of arguing about how much interest rate to charge on microfinance loans, it is suggested that the focus should be on the borrower with the question 'what level of interest will bring about optimum poverty reduction sustainably?' Making the borrower the core of microfinance interventions will compel lenders to take into account the economic and social circumstances of borrowers in the fixing of interest rates in addition to the consideration of issues of institutional sustainability.

The studies reviewed show a lack of consensus on whether the poor are sensitive to changes in interest rates. These differences reflect the lack of transparency in interest rate pricing procedures, poor people's perception of interest and other contextual factors. Not much is known about how interest rates affect poverty but inferring from studies that show interest rates as a minute proportion of returns on capital, then high interest is not likely to adversely affect poverty much. However with the realisation that interest rate terrain is more complex and that understandings on the concept of interest rates vary, then the relationship between interest rates and poverty becomes complicated, contested and difficult to unravel.

## 2.11 Conclusion

This chapter reviewed the relevant state of knowledge on microfinance interventions. The chapter began by disaggregating and explaining the concept of microfinance because in recent periods microfinance has come to mean any type of financial service provided to the poor. In trying to ascertain why conceptualisations and perceptions of microfinance change over time it was found that changes in development ideology, especially economic drivers strongly influenced microfinance. The chapter reviewed the theories that underlie the use of microfinance as a development tool. It was found that although increase in income through investment in income-generating activities was the primary aim of microfinance service delivery, other objectives such as empowerment and employment creation were considered important. It was realised that impact assessments failed to incorporate the perception of service users and mainly observed microfinance from the institutions' viewpoint. The various components of microfinance interventions were reviewed.

However from the critical review of the literature the following issues can be raised: there are no comprehensive studies on implementation process and the poverty reduction effect of these processes from the perspective of service users; effects of contextual factors on microfinance implementation have not been emphasised much in most studies; most studies have emphasised the perspective of the microfinance institutions; the issue of context has not played any significant role in most studies on microfinance interventions. The review of the literature suggests that there is indeed a dearth of knowledge on microfinance in rural communities from the viewpoint of service users and the environment in which they operate.

# CHAPTER III

# ANALYTIC FRAMEWORK AND RESEARCH METHODOLOGY

## *3.1 Introduction*

Chapter II reviewed the relevant state of knowledge on microfinance and confirmed that there was indeed a lacuna as identified as the research problem in Chapter I. Chapter II identified changing development ideologies as responsible for the current state of microfinance which does not emphasises the viewpoint of service users in microfinance research. The analytic framework of the study is presented in this chapter. The chapter identifies the theoretical approaches that will enable the tackling of the research problem. The aim of the chapter is to construct a framework that will inform and guide the rest of the thesis: selection of area of study, construction of data collection instruments, data collection and data analysis. DeLong et al. (2003: 9) define an analytic framework as '...an intellectual tool designed and employed for the purposes of generating and systematizing interpretations of complex situations.' Thus, the chapter constitutes the blueprint for the remainder of the thesis.

The chapter begins with the identification and discussion of the theoretical approaches for the investigation of microfinance in rural areas. The theoretical approaches guide the formulation of the research questions and sub-questions of the study which are presented next. The methodological approach of the thesis is presented and analysed next. Finally, a model representing a summary of the research logic is presented and discussed.

## *3.2 Theoretical Basis of Research Approach: The Sustainable Livelihood Approach and Interpretive Approach*

Research on microfinance has mainly used quantitative methods including econometric analysis which have been criticised as being acontextual. In other words findings based on econometric analysis and other quantitative data do not usually incorporate contextual information. When qualitative research methods have been employed they have tended to study only segments or components of microfinance interventions (see Besley and Coate, 1995; Aghion 1999; Armendariz de Aghion and Gollier, 2000; Al-Azzam and Sarangi 2007; Ashraf, Karlan and Yin 2009). The task for this study is identifying methodological and analytical approaches that will guide the answering of the research question. The Sustainable Livelihood Approach (SLA) and the Interpretive Approach (IA) were identified as appropriate for addressing the research question.

### 3.2.1 Sustainable Livelihood Approach (SLA): A View from Below

In assessing microfinance interventions from the perspective of service users, it is argued that understanding the context in which the intervention takes place is paramount. However, very little attention is paid to the issue of context in microfinance. Giving reasons for this lack of attention to an aspect of context, livelihood, in microfinance studies, Johnson and Rogaly (1997: 74) suggest that cross-sectional studies often do not have time or see the necessity of 'understanding the complexity of their livelihood strategies and the details of how the rural poor deal with their finances.' Realising the importance of livelihoods to microfinance interventions, participants of the North-South Dialogue on microfinance (June 2000) criticised microfinance institutions for being so preoccupied with their own sustainability that they give scant attention to the livelihood of their clients (Verhagen, 2001). Given the forgoing problems in microfinance research, the study employed the philosophical ideas of the Sustainable Livelihood Approach (SLA) to address the research problem. What is the SLA and why are its theoretical underpinnings appropriate as an analytical approach for the study?

According to Conroy and Litvinoff (cited in Scoones, 2009:4) the term 'sustainable livelihood' first came into prominence as a development concept during a conference organised by the International Institute of Environment and Development in 1987. Sustainable livelihood also has its roots from increased understanding of famine and food insecurity which occurred during the 1980s (Eldis, 2009). Chambers and Conway (1991: 6) proposed this often-cited definition of sustainable livelihood quoted below:

> A livelihood comprises the capabilities, assets (including both material and social resources) and activities for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks, maintain or enhance its capabilities and assets, while not undermining the natural resource base.

In disaggregating the concept of sustainable livelihood approach, FSAU (2009) describes livelihood as the way of life of a people which is made up of capabilities, activities and strategies needed and used by households and individuals for making a living. The term 'sustainability' has multiple meanings and Chambers and Conway (1991) discuss its use in development discourse. Ordinarily, sustainability denotes self-sufficiency and 'an implicit ideology of long-term self-constraints and self-reliance' (ibid: 5). Sustainability in a social livelihood context refers to the 'ability to maintain and improve livelihood while maintaining or enhancing the local and global assets and capabilities on which livelihood depends' (Chambers and Conway, 1991: 4). It is worthy to note that this study is not interested in the environmental[23] perspective of sustainability. Sustainability in this study denotes the ability to improve and maintain a livelihood.

In analysing the concept of livelihood strategies, it is important not only to recognise resources (in this case income-generating activities) for their instrumental (assisting to make a living) and emancipatory values (challenging the structures under which one makes a living) but also for its hermeneutic value (making life meaningful). According to Bebbington (1999), this holistic perception ensures that well-being and poverty are linked to livelihood choices and strategies. It also enhances the understanding of how people's capacities both add to their quality of life and also enhance their capabilities to confront the social conditions that reduce poverty (ibid). Microfinance literature has traditionally tended to neglect the hermeneutic value of economic activities of the poor while emphasising their instrumental and emancipatory attributes.

SLA can be interpreted in at least three ways: in a normative sense, specifying how development interventions should be; as a principle for action or a development objective; and as an analytical framework (Farrington, 2001). This thesis employs the SLA as an analytical tool but in a limited sense. It does not use any of the SLA frameworks but employs the philosophical ideas that underlie the SLA. As an analytical tool, the SLA informs the study by guiding the formulation of the research questions to incorporate user perspectives and in analysis it offers the opportunity to assess the complexities involved in rural livelihoods as a useful tool for understanding microfinance interventions (Kaboski and

[23] The environmental meaning of sustainability is concerned with pollution, destruction of forests and vegetation and overexploitation of non-renewable resources. Environmental sustainability implies that poor using environmental resources in such as manner that it does not preclude their use by future generations. The environmental aspects of microfinance falls outside the scope of this thesis.

Townsend, 2005).The philosophical underpinnings of the SLA that guide the study are discussed next.

The SLA places the poor in the centre of analysis and ascertains the extent to which interventions recognise people's livelihood as a basis for action and whether priorities of the target group are linked to the design and scope of the intervention (Toner et al., 2004). SLA emphasises people, assets and activities rather than resources or institutions and their performance (Ellis, 1998, Toner et al., 2004). In doing so it encourages researchers to assess the extent to which the poor are involved in the design and implementation of development programmes. The livelihoods approach encourages researchers to consider existing livelihood patterns as a basis for the assessment of development interventions (Scoones and Wolmer, 2003). In general terms, SLA aims at a multidimensional understanding of people's complex and integrated nature of livelihoods and acknowledges the different entitlements and assets that people hold in relation to the wider context of institutions, regulations and cultural norms. Additionally, since the SLA emphasises the importance of listening, and learning about the experiences of the poor based on the how they negotiate their livelihood, it could result in interventions that are attuned to livelihood strategies pursued by the poor (Carney, 1998; Ellis, 1998).

The sustainable livelihood approach recognises that that the poor face highly complex and vulnerable livelihoods which are subject to a myriad of uncertainties. Scoones and Woolmer (2003) state that livelihood approaches highlight the complementarities and trade-offs between different aspects of livelihood activities. For example, regarding microfinance, a poor person might be a part-time farmer, part-time entrepreneur and might not require the whole package for a farmer or an entrepreneur, but may want financial resources for ‘livelihood’ where such resources are deployed across an array of activities which make up the current livelihood portfolio.

### 3.2.2 Major Livelihood Strategies/Factors

Although this study does not intend to study the livelihoods of service users, it briefly discusses significant factors that affect or can potentially influence microfinance activities. The study therefore briefly highlights some important factors prevalent in the settings and livelihoods of rural people that can potentially influence or are influenced by microfinance interventions.

#### *3.2.2.1 The Primacy of Agriculture in Rural Communities*

Although, Bebbington (1999) advises against equating agrarian livelihoods with rural livelihoods, the fact still remains that much of rural livelihood in developing countries revolves around agriculture. One defining characteristic of rurality is the preponderance and primacy of agriculture to the local economy. Agriculture indeed drives rural economies and determines the demand for non-farm commodities. Ellis (1998) adds that no matter how diverse the livelihoods of the rural poor are, agriculture continues to constitute a predominant component or an important determinant of rural incomes. Additionally, Okidegbe (2001) has observed that for most low-income countries agricultural growth is essential to economic growth. Very few countries have experienced rapid economic growth without first achieving rapid agricultural growth. Agricultural growth stimulates economic growth in non-agricultural sectors, and vice-versa.

Agricultural occupations in Ghana, especially among subsistence farmers, are essentially considered as a way of life rather than a business or an economic activity. When farmers were asked whether they were engaged in any employment or economic activity they are apt to reply ‘no we are not engaged in any economic activity we are just farmers.’ This perspective of agriculture has permeated the rural society to the extent that microfinance interventions typically ignore farmers when they state they only give loans for income-generating activities. Farming especially food crop farming is generally regarded as the occupation of the unschooled and the poor. However, almost all rural residents engage in farming. Farming as a supplementary activity is not considered demeaning. Almost all microfinance service users interviewed in this study claimed to be part-time farmers.

In Ghana agricultural production and markets have significant influence on non-farm economic activities in rural areas. During harvest periods demand for goods and services is usually high. Markets are at their lowest at the period of the farming season when farmers prepare and tend their farms. In Ghana agricultural production is almost exclusively based on rainfall and therefore the issue of seasonality is pivotal to the community.

#### *3.2.2.2 Seasonality*

Closely allied to the issue of agriculture is seasonality. In the tropics temperatures vary little throughout the year so that the distinguishing feature of the seasons is the variability in rainfall. In most tropical areas the year is described in terms of wet and dry seasons. The issue of seasonality is closely tied to that of agriculture and it is a strong determinant of rural livelihood strategies. The effect of seasonality on rural livelihood strategies, however, tends to be under-perceived (Walsh, 1981).

The poor are most vulnerable during the raining season due to a combination of scarcity of food, prevalence of disease and a lot of labour requirements on farms. Food is scarce at that time of the year because food barns will be almost empty and crops would not have been harvested yet. Malaria, the most prevalent disease in the tropics is at its zenith during the rainy season. As well, moist conditions encourage the rapid growth of pathogenic organisms and surface run-off water during the rainy seasons result in bacteria pollution. It is at this period of the year that a lot of labour is required to clear farms of quick-growing tropical weeds as well as other arduous tasks. Thus the weakened state of the rural poor as a result of malnutrition and demanding labour requirements make them susceptible to the myriad of diseases prevalent during the season. The dry season, on the other hand is the period of harvest and plenty. It is also the time where demand is high for goods and services. In Ghana it is during the dry season when cocoa, the major national cash crop, is harvested and sold.

#### *3.2.2.3 Diversification*

Although rural livelihoods are primarily based on farming, rural households depend on a diverse portfolio of activities and income sources. Brown et al. (2006) argue that rural households earn income from diverse allocation of their natural, physical and social capital among a myriad of income generating activities. This phenomenon is seen as a means of reducing vulnerability and increasing incomes in low income countries where farming does not provide a guarantee of survival (Ellis, 1998).

Livelihood diversification is not a transient occurrence but it is permanent and persistent in many developing countries, especially in sub-Saharan Africa (Bryceson, 1996). Livelihood diversification cuts across the various socioeconomic groupings but the poor are more likely have more diversified income sources. Income diversification is thought to be pervasive in Africa. It is estimated that 30% to 50% of rural incomes in Africa are derived from non-farm sources (Sahn, 1993; Reardon, 1997).

Some reasons why the rural poor will diversify are rapid population growth which subsequently results in fragmentation and over-cultivation of arable land. Subsequent soil degradation causes agricultural yields to fall. Increasing irregular weather patterns has now rendered farming activities dependent on rainfall a very risky venture. Incomes fluctuations become the norm. The above are the reactive reasons for diversification. For other poor people diversification is for proactive reasons. They diversify to improve their economic situation of their households.

Rural people in Ghana usually diversify into non-agricultural income-generating activities such as business which are supported by microfinance interventions. Livelihood diversification strategies in rural areas include households pooling resources to sponsor a relative to a developed country; cultivating perennial cash crops such as cocoa, oil-palm, citrus; migrating to urban centres; and engaging in a non-farm enterprise.

In sum it is reiterated that this study does not intend to employ the sustainable livelihood approach as a tool for studying the livelihood of poor rural people but to use the principles underlying the livelihood approach to understand the implementation process of microfinance interventions and its effect on service users. In other words this study intends to understand microfinance processes and its effect on service users using the SLA's principles on the objectives, scope and priorities of development projects. Regarding the relevance of the term 'sustainable' in SLA to this study, the researcher's interest lies in ascertaining the extent to which microfinance affects poverty amongst service users.

### 3.2.3 Interpretive Approach

The study employs the interpretive approach as the underlying theory of the research methodology. Interpretivism or the interpretive approach is a trend in social science that focuses on human beings and their way interpreting and making sense of social reality. According to Bevin and Rhodes (2004: 130), 'Interpretive approaches start with the insight that to understand actions, practices and institutions, we need to grasp the relevant meanings, beliefs and preferences of the people involved.' Interpretivists argue that human experience is a process of interpretation rather than sensory perception of the external phenomena (Winch, 1994). The rationale for the inclusion of this approach is based on the idea that to accurately convey someone's perception, extensive knowledge, understanding and interpretation of the world view of the person is essential. A brief overview of the interpretive approach is presented next.

The interpretive approach developed out of hermeneutics, which historically had focussed almost exclusively on interpreting literary and religious texts (Howard, 1982; Palmer, 1969). In recent times, hermeneutics has been applied to the social sciences and is referred to as interpretive social science (Rainbow and Sullivan, 1979). The interpretive approach is increasingly being applied to a myriad of studies such as psychology, political science, anthropology and consumer studies (Holloway, 1997). While there are a number of sources that explain the theoretical underpinnings of the interpretive approach, the study borrows extensively from Tappan's (2001) detailed account of Wilhelm Dilthey, who is considered the father of the modern hermeneutic project in the social science, to explain the approach. Dilthey argued that unlike the natural sciences, human beings cannot be studied without taking the process and self-interpretation into account. However, this introduces the problems of bias and prejudice due to the diversity of human perspectives. Dilthey therefore proposed the use of hermeneutics, the systematic methodology of interpretation, to address these problems. He employs the term ‘lived experience’ to encapsulate the individual’s human existence which is represented in the three psychological dimensions; thinking, feeling and acting. Lived experience is private, subjective and cannot be described from the ‘outside’. Subsequently, if lived experience has to be understood and interpreted, it should be expressed. Expression of lived experience can be manifested in the form of poetry, art, film, dance or an interview narrative.

Dilthey’s major goal was to discover objectively valid interpretations of unique expressions of human lived experience. In other words, he endeavoured to find ways of interpreting such experience in order to understand other people. Dilthey suggests that in order to interpret lived experience, historical and psychological context must be taken into consideration. There is no such issue as non-positional understanding. Researchers understand by constant reference to their own perspectives, which shape their understanding based on their expectations, preconceptions, and assumptions. These in turn are based on the researchers’ life-experience, culture, tradition and worldview. The problem can be ameliorated by researchers interacting with expressions of people’s lived experience (such as text) in ways that will enhance their understanding of the subjects’ experience based partly on their own experience. This implies that understanding and interpretation can be enhanced when the lived experience of the researcher and researched coincide.

The interpretive approach emphasises interpretation within a context; human beings do not exist in a vacuum and their experiences should be understood within a certain context. Researchers are therefore urged to understand the socially constructed nature of the social world and realise that values and interests become part of the research process. The interpretive approach therefore basically employs qualitative methods in the collection and analysis of data (Holloway, 1997).

To conclude, the interpretive approach will serve as a guide to selection of an area of study. Interpretation of data is enhanced when the lived experience of the researcher and the researched coincide. The researcher will be looking for a rural community where the he has sufficient knowledge about the language, culture and social and economic characteristics. In other words, the researcher should be conversant with the lived experience of the research subjects and that should enable the collection of data that closely reflect what interviewees want to convey. This will mean the researcher conducting all interviews, translations and transcriptions by himself to ensure that data collected is valid. It is expected that by adopting the interpretive approach that emphasises careful consideration of context and interpretation, the study of microfinance in rural communities from the perspective of the users will yield useful insights.

### *3.3 Formulation of Research Question and Sub-questions*

It is important to note that although the questions are reproduced in section 1.3 they were formulated at this stage after the research problem identified in chapter one was made clear after the review of the relevant state of knowledge on microfinance. It was evident that there was no comprehensive study of microfinance components and implementation processes and their effect on service users from the perspective of service users. The following research question was proposed:

**How do implementation processes affect poverty reduction by microfinance in rural Ghana?**

The research question is answered through a series of sub-questions whose construction was informed by the analytical approach adopted by the thesis: the Sustainable Livelihood Analysis (SLA) and the thesis' emphasis on context. The research question is broken down into two main questions with their corresponding sub-questions. The first main question sought to assess and analyse the implementation process of microfinance interventions while the second main question examines the effect of the intervention process on households and businesses of service users.

**I. How are microfinance interventions implemented and how do they affect activities within the intervention?**

1. To what extent are contextual factors and perceptions of service users taken into account in the design of microfinance interventions and what are the implications?
2. Are there any differences between microfinance institutions' intended and actual implementation practices and what are its ramifications?
3. What are the roles and implications of microfinance interventions in group formation and dynamics?
4. How do microfinance institutions' loan activities affect service users' loan management?
5. To what extent are non-financial services relevant to service users?
6. How do service users perceive costs of microfinance and why?

**II. How do microfinance implementation processes affect poverty reduction?**

1. Do characteristics of service users and their businesses influence poverty reduction and why?
2. What are the effects of microfinance interventions on businesses and households?
3. Do group formation and subsequent activities influence poverty reduction?
4. How do loan matters affect poverty reduction?
5. Do savings facilities of microfinance institutions enable service users to reduce poverty?
6. What is the relationship between costs of microfinance and poverty reduction?

At this point it is impossible to specify exactly how each of the research questions will be answered because the objective was to construct the questionnaire in the field on the basis of information collected in interviews. For the rationale for this strategy see section 3.4.3. In general terms, the first set of questions regarding the implementation process will be answered with interview data, questionnaire data, and secondary information on the microfinance institutions. The second set of questions on the effect of the implementation processes on household and businesses will include all of the above sources of data used to answer questions on the implementation process but much more emphasis will be given to the quantitative data. After formulating the research questions the next task confronting the researcher is how the questions will be answered. The next section proposes the methods for analysing the questions posed.

## 3.4 Methodological Approach

There seems to be no single acceptable method of conducting research. Many factors contribute to the choice of methodology and these include: researchers' perception about the nature of the social world and what can be known about it (ontology); the type of knowledge and how it can be acquired (epistemology); the purposes and goals of the study; the characteristics and other contexts of the study area; resources available for the study; and the academic background of the researcher (Snape and Spencer, 2003; Creswell, 2003). Research methodology tends to be polarised along the quantitative/qualitative divide because researchers are usually recruited, trained, socialised and rewarded along single methods of social enquiry. Additionally peers and supervisors of researchers show clear preference for one tradition over another. This practice, according to Rao and Woolcock (2003), ensures intellectual coherence and quality control.

The methodological orientation of this study emanates from the pragmatic perspective in social research. According to Creswell (2003), methodological pragmatists use all methods applicable to understand various aspects of a research problem. The pragmatist perspective to research tends to be problem-centred, consequence-oriented and pluralistic. The appeal of this approach stems from its choice of methods that best addresses the problem and not the other way round (Patton 1990; Creswell, 2003). Arguing in favour of the pragmatists approach, Patton (1990; 39) advocates for a 'paradigm of choices' that applies 'methodological appropriateness' as the primary criterion for selecting a methodological approach. By implication, pragmatists are likely to employ methodological pluralism or the mixed methods approach to understand social reality if required (Robson, 2002). Reichardt and Rallis (1994; 85) advocate combining qualitative and quantitative methodologies due to the following issues in research:

- the theory-ladenness of facts
- the value-ladenness of enquiry
- that reality is multiple, complex, constructed, stratified
- the under-determination of theory by fact (i.e. that any particular set of data is explicable by more than one theory).

In addition, Creswell (2003) makes a knowledge claim for methodological pragmatism and succinctly summarises it as follows: it is not confined to any one system of philosophy of reality and does not see the world as an absolute unity; believes that research takes place in social, economic, political and other contexts; and freedom of choice of method that best suits the problem at hand is important. In sum, the pragmatic methodology usually implies, 'multiple methods, different worldviews, and different assumptions, as well as different forms of data collection and analysis in the mixed method study' (ibid; 2003; 12).

In keeping to the pragmatist perspective and with regard to the main objectives of this study, which are, to understand microfinance intervention processes and assess their effect on service users, the mixed methods approach was deemed the most appropriate (Hentschel, 1999; Rao and Woolcock, 2003). Understanding process— mechanism by which a particular intervention initiates a series of events that eventually leads to an observed impact—is usually achieved through a qualitative method of enquiry. The qualitative research method will enhance the understanding of the cultural, social, economic, political and institutional context within which development interventions occur (Bamberger, 2000). Understanding process issues are crucial in understanding impact as opposed to just measuring it (Rao and Woolcock, 2003). Madey (1982) observed that employing the mixed methods approach in a study has synergistic effects on the three major stages of design, data collection and analysis. Quantitative research methods will be most appropriate in measuring levels and changes in impact and to make inferences from the observed statistical relations between those impacts and covariates (ibid, 2003). The increasing popularity of the mixed methods approach in development research is due to the recognition that no data collection or analytical method is free from limitation and that biases inherent in any one method could potentially be checked by other methods (Creswell, 2003).

### 3.4.1 The Mixed Methods Approach

While the mixed methods approach is necessary to understand social reality, it is relatively new and still developing in form and content and its practical integration in research remains quite elusive (Hentschel, 1999; Bamberger, 2000; Creswell, 2003). It is important to understand more about the mixed methods approach, especially when and how qualitative and quantitative methods can be integrated. For instance, does integration mean conducting qualitative and quantitative research separately and comparing results? Creswell (2003) identified three general procedures for mixing methods: the sequential, concurrent and the transformative. The sequential refers to the researcher using one method to develop and elaborate another. The situation where the researcher integrates quantitative and qualitative data to provide a comprehensive analysis is known as the concurrent procedure. This simply implies that both methods are applied simultaneously. With regard to the transformative procedure, the researcher employs a theoretical perspective whose design contains both quantitative and qualitative data and the research design can involve either the sequential or concurrent or both. The transformative procedure, which involves an *a priori* decision as to what research design to use, seems to be at variance with the pragmatic approach which advocates the choice of methodological design informed by the research problem. Rao and Woolcock (2003) also suggest three ways of integrating quantitative and qualitative data: parallel, sequential and iterative. In the parallel approach research teams work separately but compare results during the analysis phase. As the name implies and quite similar to Creswell's explanation, sequential approach implies that one methodological approach precedes and elaborates or informs the other. The iterative approach is much like the sequential, but it involves returning to the field to clarify questions and resolve apparent disparities using alternative methodological approaches. Creswell (2003) and Rao and Woolcock's (2003) mixed method strategies give a general idea of integrating methods, but they do not explain how the methodological approaches are integrated at the various stages of the research process. According to Bamberger (2000), research designs can integrate quantitative and qualitative methods at different stages of the research process, however, designs that fully integrates both qualitative and quantitative methods at all stages of the research process have often proved a difficult endeavour. Bamberger says research can be mixed at the exploratory, sample selection, data collection, data analysis and the presentation of findings' stages of the research process. Bamberger's detailed account of how quantitative and qualitative methods are integrated in all stages of the research process is not discussed here except where it is of relevance to this thesis. How the mixed methods approach is applied in three stages in relation to the study is presented next.

### 3.4.2 Integrating Sampling Methods

Qualitative and quantitative methods can be effectively integrated at the sampling stage. The use of statistical sampling procedures can ensure that the findings of qualitative studies such as a case study can be generalised (Bamberger, 2000; Creswell, 2003). This will increase the likelihood that the findings will be accepted and used by quantitatively oriented policy makers, researchers and practitioners. Additionally, purposive sampling methods can be employed to determine a criterion for the design of cluster sampling and stratified sampling strategies by helping to identify some of the important social and cultural characteristics of different groups which could not be obtained from the kinds of statistical sources normally used in sample selection in quantitative research.

Qualitative and quantitative sampling will be done separately in the study. The purposive and probability sampling techniques will used for qualitative and quantitative sampling respectively. However since respondents for the qualitative interviews will be selected first, the subsequent interviews could provide some information about how to conduct sampling for the quantitative analysis.

### 3.4.3 Integrating Data Collection Methods

The integration of methods at the data collection stage is proving important with the growing recognition of the limitations of the survey method for collecting data that is accurate, fully textured and nuanced at multiple levels of social reality (Kertzer and Fricke, 1997). The mixed methods approach is feasible at the data collection stage if contextual data collected through qualitative data collection techniques is incorporated into the design of appropriate quantitative data collection methodology (Hentschel, 1999; Bamberger, 2000). Rao and Woolcock, (2003) call the process where qualitative work informs the design of quantitative questionnaires as an interactive process. It is also worth noting that in development research and programme evaluation studies, quantitative methods can be employed to collect qualitative data and vice versa. The inclusion of open-ended or subjective response questions in a questionnaire can be used to generate data for qualitative analysis. On the other hand, quantitative data can be derived from qualitative methods of data collection if it employed probability sampling techniques and used a fairly large number of respondents (Rao and Woolcock, 2003). Mixed methods approach at the data collection stage ensures that the two methods are complementary and provides reliability checks on each other (triangulation).

The ability to identify the right questions and comprehensively understand, especially, complex social phenomena are hampered through the use of quantitative data collection methods. Thus, in the study where the issue of context is central, contextual data collection methods (interviews) will be used to design appropriate quantitative data collection instruments. The construction of the questionnaire for collection of quantitative data will be informed by data collected through qualitative interviews. Using this strategy, quantitative data collected will include contextual information which quantitative data collection methods have usually been criticised of ignoring.

### 3.4.4 Analysis and Interpretation

The ability to conduct integrated data analysis depends on how the data was collected. For example if qualitative data was collected based on some element of random sampling, then that data can be analysed qualitatively and also quantitatively by creating dichotomous nominal or ordinal variables. On the other hand, using the sequential approach where hypotheses derived from qualitative analysis are tested with survey data is a new technique being increasingly used in the mixed methods approach (Hentschel, 1999). Bamberger (2000) suggests using statistical analysis to test findings of focus groups, interviews and key informants. For instance, focus group interviews might reveal a low level of access of the girl-child to educational resources, which might then be interpreted to mean gender bias. Before making this interpretation, however, it might be useful to compare the findings of the proportion the boy-child's access to educational resources to ascertain the girl-child is really being discriminated against with respect to access to educational resources through quantitative analysis.

Perhaps one of the most important stages in the mixed methods approach is the interpretation of findings. Quantitative findings, interpreted in conjunction with qualitative findings, will enhance the understanding of the magnitude and extent to which phenomena are embedded in a certain context. For instance, in a primarily quantitative study the interpretation of the statistical analysis can be enhanced by a qualitative narrative account. In a mainly qualitative research, on the other hand, quantitative evidence can be used to clarify or buttress the study (Robson, 2002). Another frequently mentioned benefit of the mixed methods approach at the interpretation stage is the use of qualitative methods to conduct follow-up fieldwork to obtain feedback on unexplained and unanticipated outcomes (Bamberger, 2000).

In assessing the implementation of microfinance processes, this thesis will organise the qualitative data according to themes based on the various components[24] of the microfinance interventions. Interviews on the effect of the processes on household and business outcomes will be analysed and compared to the quantitative results. It is expected that such information will enable a deeper understanding of the observed effects. The quantitative data on the processes will constitute of cross-tabulations and chi-square tests. In assessing the effect of the implementation process on household and business outcomes, ordinal or binary logistic regression will be employed. Logistic regression will enable the control of the intervening variables as shown in Figure 3.1**.** In sum, this thesis will analyse quantitative and qualitative data separately but the interpretation leading to the answering of the research questions will be done together. This should enable a seamless depiction of a valid account of microfinance in a rural community from the users' viewpoint.

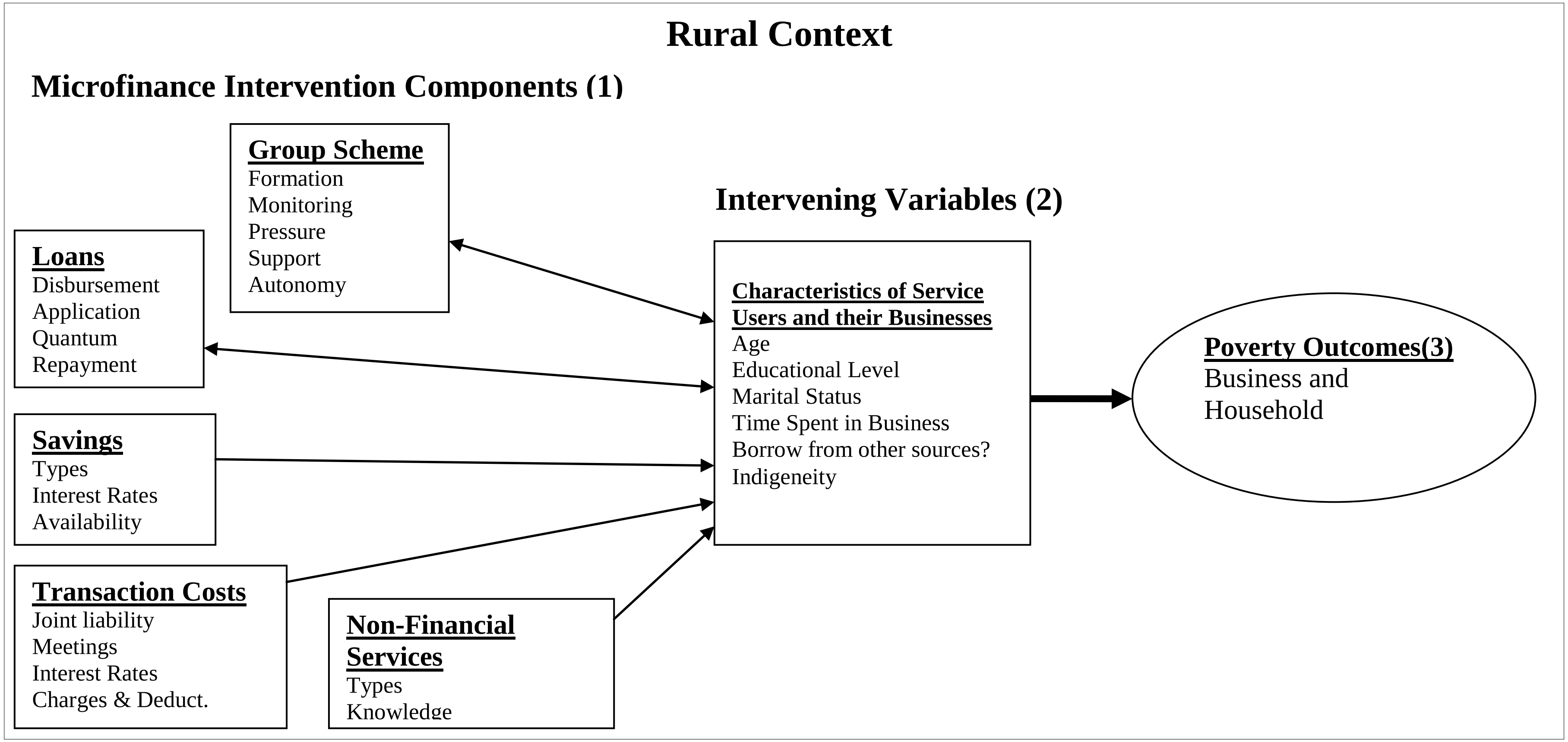
To conclude it is worthy to note that the mixed methods approach comes with a cost; it is technically complex and in the case of large studies, individuals with skills of both approaches have to be recruited. This makes such research projects expensive in terms of time, talent and resources. Additionally, the lack of a comprehensive body of knowledge on how different methods can be mixed and circumstances under which it can be employed constrain the use of the mixed methods approach (Rao and Woolcock, 2003). In keeping with the mixed methods approach, where feasible, this study integrates qualitative and quantitative research methods at various stages of the research process.

[24] Components of microfinance interventions denote the various segments of microfinance interventions such as loan, group formation, savings and insurance. See Figure 3.1 for the various components of the interventions.

## 3.5 Summary of Research Logic

Figure 3.1 presents a summary of the variables and their relationships as used in this study. It is important to note that Figure 3.1 is illustrative rather than operational. The outer box represents the rural setting and it indicates the importance of context to this study: microfinance implementation and its effects are examined and understood within the rural context. The set of five boxes in the left side of the rural setting box numbered 1 represent the main components of the microfinance interventions whose implementation processes will be assessed as the first part of the analysis. The first set of six sub-questions in section 3.3 investigates the implementation processes of the two interventions. How the relevant variables are measured and information about them can be found in Appendix 2. Next the study assesses the effect of the implementation of the microfinance intervention components numbered 1 on poverty outcomes numbered 3 in Figure 3.1. The effect of the implementation of the components on poverty outcomes are assessed by the question ‘How do microfinance implementation processes affect poverty reduction?’ This question is broken down into six sub-questions as shown in section 3.3. In answering these questions it is envisaged that some characteristics of service users and their businesses (labelled as intervening variables (2) in Figure 3.1) can potentially influence the relationship between the component and the poverty outcomes. The intervening variables are analysed and discussed in Appendix 1. These are then controlled for in the ordinal logistic regression analysis in Appendix 3.

## Figure 3.1 Summary of Research Logic



### *3.6 Conclusion*

This chapter constitutes the blueprint of the thesis that will inform and direct the rest of the study. The Sustainable Livelihood Approach was found to be the most appropriate analytical theory to guide the study, given that the purpose of the study is to understand microfinance from the perspective of its users. The study is also informed by interpretive theory, which emphasises the primacy of individuals' own perceptions. The study will employ a pragmatist and mixed methodological approach to data collection and analysis. The data collection process is expected to be fluid enough to collect contextual information, which is central to the study. Finally the analytic model is encapsulated in a model (Figure 3.1). It depicts the various variables that will be controlled for and assessed and the relationships amongst them.

# CHAPTER IV

# THE GHANAIAN, COMMUNITY AND INSTITUTIONAL CONTEXT

## *4.1 Introduction*

This chapter presents the background of the country, the area of study and the microfinance institutions and interventions studied. This information is essential for understanding activities and outcomes of the interventions in order to answer the research question. The rationale for the selection of the area of study is also provided in this chapter. This chapter was especially influenced by the interpretive approach presented in the previous chapter. In selecting an area of study, there was heightened awareness of the importance of ensuring that the researcher shares a similar lived experience with the people being studied in order to come up with more valid information. In other words, knowledge of the respondents and their environment is important for a study that emphasises context. Many development-oriented studies have emphasised the importance of context in the implementation of interventions (Verhagen, 2001; Johnson, et al. 2003; Littlefield, 2003). Legderwood (1999) has argued that a country's political and economic environment, especially development in the financial sector has immense influence on microfinance institutions in their delivery of financial services to the poor.

This chapter is structured as follows: after the introduction, the chapter presents and justifies the selection of the country and community of study, and the microfinance institutions and interventions investigated. The section that follows presents the country context describing some economic indicators relevant to microfinance, the financial regulatory framework, financial and microfinance institutions in the country. The next section introduces the area of study Nsoatre, giving brief social, economic and financial information. Finally, the backgrounds of the two related microfinance interventions are presented and discussed.

## *4.2. Selection of Case Study Area and Microfinance Institutions*

Decisions regarding where to conduct a piece of research lie at the very heart of every research activity. This decision-making process has more to do with imagination and ingenuity rather than the simple application of the scientific principle (Bechhofer and Patterson, 2000). The choice of Ghana for the study was no accident: it was the researcher’s country of birth and he had resided in the country for more than 30 years. The choice of Ghana was in consonance with the aim of this thesis which is to ensure that the researcher shared a lived experience with respondents.

With a strong emphasis on context and with the intention of studying microfinance from the perspective of microfinance service users, this study did not just select a microfinance institution and assess its impact on the poor. The researcher decided to first of all select a community, identify and assess all microfinance institutions in the community and select the appropriate institutions for the study. The criteria for selecting a community for the study were: existence of more than one vibrant microfinance institution; diversity in terms of type of microfinance services, organisation, and orientation; microfinance being in existence for three or more years; and the assurance of permission to undertake the study.

Nsoatre, a rural community in the Brong Ahafo Region, which was identified during the preliminary field trip, satisfied the above criteria and was therefore selected for study. Although selection of area of study was purposive, the researcher bore in mind that the selected community possessed characteristics similar to others in the forest belt of the country so that findings could be applicable to other such communities. In other words, it was important to avoid rural communities that possessed unique characteristics. Given the prominence of the issue of contextuality to this study, another factor that influenced the choice of the rural community was the researcher's intimate knowledge of the linguistic, social, cultural, economic and political characteristics of the area. Hershfield et al. (1983) argue that with regard to rural fieldwork, interviewers should be knowledgeable about behavioural patterns, social organisation, mores and economic issues of village life before undertaking data collection. This intimate knowledge of the area of study, especially the language was important considering that there was a high level of illiteracy in the area of study and among respondents. This meant that the interview questionnaire had to be employed and questions translated into the local language from English during the interview process. Another important advantage of the researcher understanding the local language was that he could conduct and translate the interviews by himself. This will enable the researcher to maintain a high degree of control over the fieldwork process. In support of the importance of knowing the language of the area of study, Devereux, (1992) acknowledges that it enables richer and more textured information to be collected. Fieldwork literature is replete with problems of using translators and understanding social phenomena through others (see Ellen, 1984; Devereux and Hoddinott, 1992; Robson, 1997).

The number of years that a microfinance intervention has been operating in the area of study was an important selection criterion for inclusion in the study. The study selected microfinance institutions which had been operating in the study area for three or more years. It is argued that a microfinance institution that has been in existence for three years[25] or more is more likely to have experienced many different economic and seasonal conditions that can potentially influence the impact of microfinance interventions. Microfinance institutions that have been in existence for over three years are likely to have gone through between 6 and 9 cycles[26] so that the mode of implementing services would have more or less assumed regular patterns. Such patterns can then be studied in addition to the impact it should yield after that period of time. After the identification and selection of the area of study, all formal microfinance institutions which existed in the community were subjected to the above criteria and the ones that met the criteria were selected for study. Employing these criteria, two institutional microfinance institutions were identified during the researcher's preliminary field trip: the Sinapi Aba Trust and the Nsoatreman Rural Bank.

The main rationale for the decision to study more than one microfinance institution was to ensure access to diverse information for in-depth understanding rather than for comparison. The choice of the two institutions was quite appropriate due to the

[25] In a study to assess the effect of microfinance on the health conditions of children of participants, Freedom from Hunger (FFH), as well, chose a three year period (1993-1996) to assess impact.

[26] Most cycles seem to last for a period of four months, the reason for this is unclear. Depending on issues of repayments and disbursement of fresh loans, there may be differences in the number of cycles per year.

dissimilarities in their mode of operations, services, orientation and composition. It should be noted that the emphasis was on interventions rather than on institutions that had been in existence for that period of three years (see Appendix 4 for the difference between institution and intervention). For instance, NRB was established as a banking institution in Nsoatre since 1982 but NWEP intervention began in 1996.

Nsoatreman Rural Bank and Sinapi Aba Trust presented the diversity that promised to make an interesting study. SAT, is a financial NGO with restrictions on the type of services it could offer and had a poverty-reduction orientation. NRB is a formal banking institution with both commercial and welfare objectives and offering a wide range of services to service users.

## *4.3 Ghana: Poverty and Economic Context*

Ghana[27] is a west African country with a land size of about 240, 000 km$^2$ and it is situated on the Gulf of Guinea, an arm of the Atlantic Ocean (IFAD, 2007). Ghana has an estimated population of 23 million, which has been growing at about 2.7% per year (Gallardo, 2002; NDPC, 2005). GDP per capita (PPP) in 2006 was estimated at $2700 (CIA, 2008). The population living in rural areas has reduced from 63% in 1999/2000 to 53% in 2005 and there are indications that the rate of rural-urban migration will increase (Gallardo, 2002).

Since she gained independence from the British in March 1957, Ghana has experienced a series of political upheavals. The country has had four violent overthrows of governments. The most frequently cited reason for military takeovers is

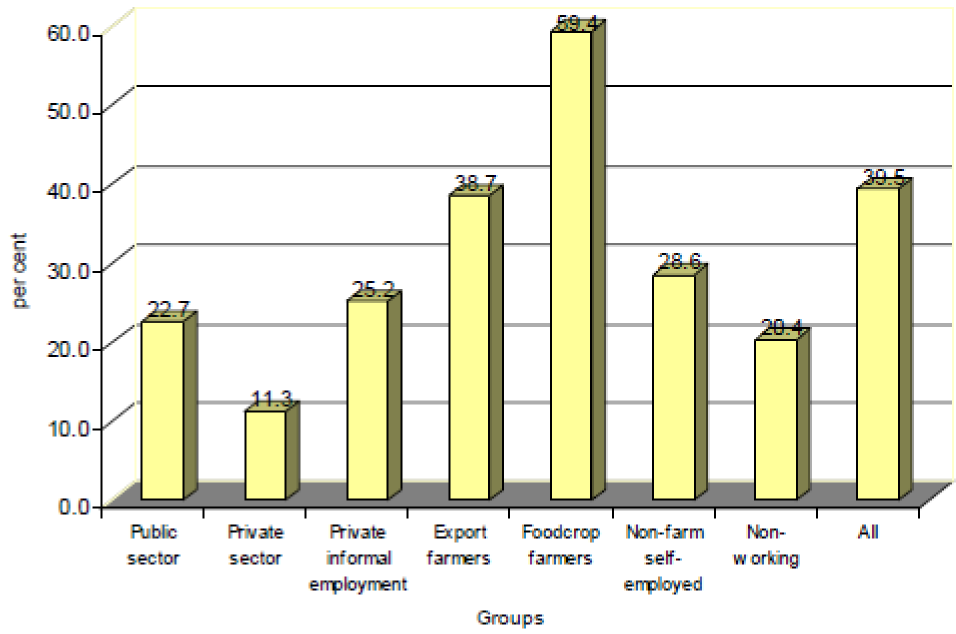
[27] See the map of Ghana at Appendix 5

pervasiveness of corruption among the ruling elite. Ghana returned to multi-party democracy in 1992 and since then that form of governance seems to have taken root.

### 4.3.1 Poverty in Ghana

Poverty in Ghana has witnessed dramatic declines since the late 1980s. For instance, the population of Ghanaians defined as poor (per the national poverty line) declined from almost 52% in 1991/1992 to a little under 40% in 1998/1999 (Ashong and Smith, 2001). According to the Ghana Living Standards Survey by 2005 this had reduced further to 28% (Ghana Statistical Service, 2006). Nevertheless, this positive trend tends to hide the geographical and occupational (see Figure 4.1 for poverty levels based on occupations) heterogeneity in levels of poverty. For instance, the rural savannah areas in the northern part of the country experienced an increase in poverty while overall food crop farmers experienced the least decline in poverty (Gallardo, 2002). Reductions in poverty were concentrated in the Accra area and the rural forest regions of the country (ibid). Poverty in Ghana, like in most other sub-Saharan African countries, is a predominantly rural phenomenon. Out of 35% of Ghanaians classified as poor, 75% lived in the rural areas and rural poverty is estimated to contribute approximately 90% to national poverty (Oduro, 2001). More than one-half of the population living in the rural Savannah regions of Ghana continues to be extremely poor.

**Figure 4.1: Poverty Status by Occupation, 1999**




Source: Ghana Statistical Service (2000).

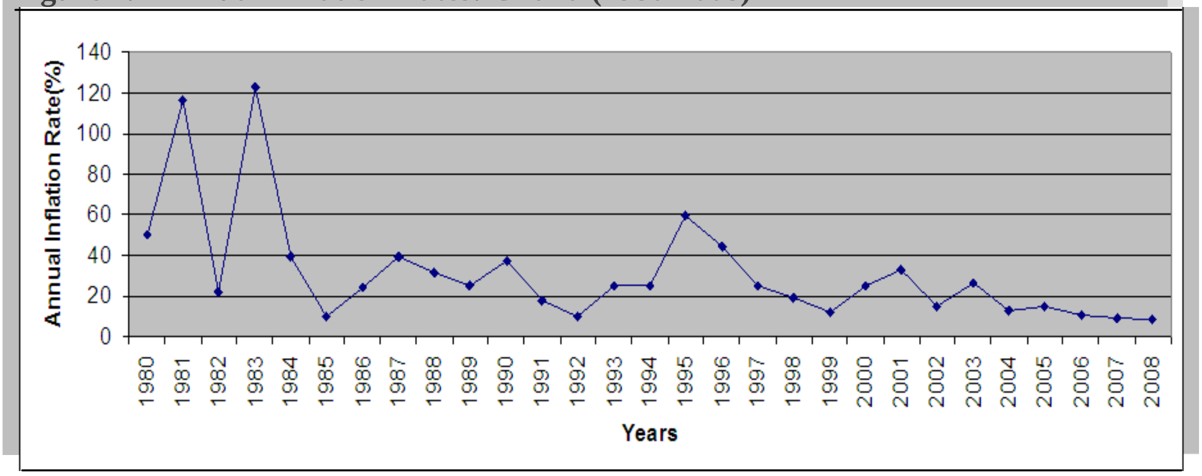
### 4.3.2 Economic Background

At independence, Ghana emerged as one of the biggest owners of reserves in the Sterling Area system due to the boom in the market for cocoa. Accumulated national savings led to a spate of infrastructure construction, including the Tema harbour, the industrial city of Tema and the Volta River power system. Overall, economic growth was relatively robust after independence till the mid 1960s. The Ghanaian economy became sluggish from 1964 when the exhaustion of financial reserves coincided with the collapse of market for cocoa in the 1960s. Danquah (2006) observed that during much of the period between 1966 and 1983 the economic growth rates were negative. Economic growth was uneven and poor after the mid-1960s and only began to stabilize after 1984. The economic improvement was due to the fact that in 1983 Ghana adopted the World Bank's prescription for development in Third World countries: the Structural Adjustment Programme (SAP). Known in Ghana as the Economic Recovery Programme (ERP), SAP involved policies that were meant to improve resource allocation, increase economic efficiency and improve the country's ability to withstand domestic and global economic shocks.

Interest rates which are important determinants of the lending decisions of microfinance institutions have been mostly negative until the implementation of a Financial Sector Adjustment Programme (FINSAP) in 1986. With the liberalization of interest rates under FINSAP, interest rates soared. Lending rates averaged about 36% between 1998 and 2000 resulting in the cost of borrowed capital becoming very expensive. From 2000 Ghana experienced a spectacular reduction in inflation rates and interest rates have somewhat dropped. Due to the important role played by inflation rates in financial decisions especially lending, the rates of inflation from 1980-2008 are presented in Figure 4.2 below. Regarding GDP, since 2000 real GDP rates have witnessed consistent growth, culminating in a 7.5% growth in 2008.

In sum, the economic outcomes of the country have shown a highly unstable pattern of cyclical fluctuation based on the variability in the markets for the primary products namely, cocoa, and timber and gold-upon which, even now, the economy entirely depends (NDPC, 2005). Figure 4.2 shows the dramatic declines in inflation rates between 1980 and 2008. The spikes coincide with years of poor agricultural yields and this indicates how reliant the economy is on agriculture.

**Figure 4.2 Annual Inflation Rates: Ghana (1980-2008)**




Source: 2008 World Economic Outlook IMF (2008)

## *4.4 Financial Institutions and the Financial Regulatory Framework of Ghana*

This section discusses the various categories of financial institutions and the financial regulatory framework of Ghana. Table 4.1 below depicts the financial institutions that are directly involved in microfinance. They consist of a tiered range of formal, semi-formal and informal institutions and arrangements. The table also shows a summary of the legal and regulatory environment under which financial entities in the country operate. Financial intermediation and credit activities fall under the regulatory jurisdiction of the central bank, Bank of Ghana (BoG) (Gallardo, 2002). The regulatory framework under the Banking Law (1989) and the Non-Bank Financial Institutions (NBFI) Law (1993) accommodate a tiered structure of licensed financial intermediaries and financial regulation (Gallardo, 2002; 9). This section draws heavily from works of Steel and Andah (2003) and Gallardo (2002) who have written extensively on the regulatory framework related to rural microfinance.

**Table 4.1: Summary of Financial Institutions Providing Microfinance Services & Regulatory Framework of Ghana**

| Institution | Ownership | Legal Basis | Organised As | Fund Source | Authorised Activities | Agency Supervising | Target Market |
|---|---|---|---|---|---|---|---|
| Commercial Banks in MF | Private/State | Companies Act; Banking Law | LLC | Equity capital; commercial loans; deposits | Equity Cap: Comm. Loans: Deposits | BOG | Individuals/ Commercial Enterprise |
| ARB Apex Bank | Rural Banks; BoG | Companies Act; Banking Law | LLC | Government; international grants and loans | Apex Bank functions under NBFI licence | BoG; RFID | Rural Banks |
| Rural Banks | Community-Owned/BOG | Companies Act; Banking Law | LLC: Unit Bank | Gov't loans; deposits; equity capital | Savings; Deposits; micro-loans; hire-purchase financing | BOG; RFID ARB | Individuals/ Bus. in Area |
| Savings and Loans Co. | Private Parties | Companies Act NBFI Law | LLC | Equity Cap: Grants: Loans: Deposits | Savings; Deposits; micro-loans; hire-purchase financing | BOG; NBFI | Ind./ Small Bus./ Susu Collectors |
| Ghana Credit Union Assoc. | Primary-Level Credit Unions | Law on Cooperatives (CU) NBFI Law | Coop. Society | Member CU's capital; grants; contributions, loans; deposits | Wholesale loans; CFF; CU Pearls; training, monitoring ; assessment | Registrar of Coop.; NBFI/BoG | Credit Unions |
| Credit Unions | Individuals and Organisations. | Law on Coop NBFI Law | Coop. Society | Members' share capital; deposits | Members-only savings deposits; microloans | BOG: NBFI: Ghana CUA Registrar of Cooperative | Individual Members |
| NGOs | Private Parties | Law on Trust and Charitable Inst. | Co Ltd by Guarantee (Not for Profit) | Grants and Donations | Grants: Donations | None | Individuals/ Groups |
| National Association of Susu Collectors | Individual susu collectors | Law on Coop. | Coop. Society | Members' share capital; contributions | Taking deposits ; making loans to members | None | Susu collectors |
| Individual susu collectors | Individual susu collectors | None | None | Clients' fees | Collecting & safekeeping of clients' savings | None | Market vendors; others |
| ROSCAs | Members | None | Group | Members' contributions | Members-only savings deposits | None | Market vendors; employees |
| ASCAs | Members | None | Group | Members' contributions | Members-only savings deposits; microloans | None | Market vendors; employees |
| Trade-Creditors | Trade creditor | None | None | Personal | Deposits; microloans | None | Farmers; Fishermen; artisans |
| Money Lenders | Money lender | None | None | Personal | Loans | None | Individual; groups; families |
| Social networks | | None | None | Personal ; group | All forms of financial assistance | None | Family, kin members and friends |

Adapted from A Framework for Regulating Microfinance Institutions: The experience in Ghana and the Philippines (Gallardo, 2002)

The Bank of Ghana[28] (BoG) is not classified under any of the above three categories because being the central bank it regulates and supervises the commercial and Non-Bank Financial Institutions and additionally advises government in financial policy formulation. The BoG has ceded some of its functions to the Association of Rural Banks (ARB), the apex bank of the rural banks (Al-Bagdadi, 2002). In 2002 parliament passed the Bank of Ghana Act (2002) Act 212 to amend and consolidate the law relating to the Bank of Ghana (BoG) which remained fragmented in the statute books.

### 4.4.1 Formal Institutions

Formal financial institutions are incorporated under the Companies Code 1963 which makes them limited liability companies and are subsequently licensed by the BoG under either the current Banking Act 2004 (Act 673) or Non-Bank Financial Institutions Law 1993 (PNDCL 328) to provide financial services (Steel and Andah, 2004). These are subject to prudential regulation in order to protect public savings that are mobilised and lent out (intermediated).

#### *4.4.1.1 Universal Banks*

Since 2003, Universal Banks have replaced the three-pillar banking model: commercial, development and merchant banking. In addition to financial intermediation, this banking category is permitted to undertake a myriad of other

[28] For more on the functions of the Band of Ghana (BoG) see http://www.bog.gov.gh/privatecontent/File/Secretarys/bog-act.pdf

financial and advisory services[29]. There were 26 universal banks in Ghana as at June 2009 and most of these have been in existence less than 7 years (BoG, 2008).

Universal banks had previously been involved in state-sponsored subsidised microfinance schemes which were noted for their spectacular failures. The Ghana Commercial Bank, Agricultural Development Bank, Ghana Co-operative Bank and the National Investment Bank are some of the few financial institutions that were involved in state-sponsored microfinance schemes. The proliferation of universal banks in the recent period is increasingly leading to saturation so some of them have turned their attention to the poor unbanked population in rural communities and the urban slums. Perhaps the impressive success of Barclays Bank in reaching the poor has fuelled this recent development. In 2005 Barclays Bank of Ghana through its microbanking scheme mobilised about 47 million Ghana cedis in about 18 months of operation. It had also granted 1.03 million Ghana cedis to about 1480 individuals made up of market women, hawkers, hairdressers and other artisans (Kunzeman, 2007; Steel and Andah, 2004). The success of the Barclays Bank in the microfinance sector has spurred other universal banks' interest in microfinance. Although these banks profess to have altruistic motives for engaging in microfinance, being profit-making institutions it is argued that their major objective investing in microfinance has more to do with profitability. However, since almost all of the universal banks are situated in urban areas, their microfinance activities in rural areas are limited.

[29] For more on the authorised activities of universal banks visit http://www.bog.gov.gh/privatecontent/File/BankingSupervision/Guidelines%20for%20banking%20licences.pdf

#### *4.4.1.2 Rural and Community Banks (RCBs)*

RCBs operate as commercial banks under the banking law. However, they cannot undertake foreign exchange transactions and their operations are limited to specific geographical areas. RCBs were first established in 1976 to mobilise savings in rural areas not served by commercial and development banks. RCBs, which operate as unit banks, are owned by members of the community through purchase of shares (Gallardo, 2001; BoG, 2008).

In 2007, there were 129 RCBs in Ghana and they had a total of about 1.2 million depositors and about 150000 borrowers (BoG, 2008). RCBs constitute the largest player in Ghana with regard to geographical coverage, depth of outreach and number of products. Due to their unique structure and position, RCBs will continue to be the major provider of financial services to the rural poor (Andah, 2005). Most RCBs routinely run microfinance interventions, usually with assistance from donors. In recent times many RCBs have established susu schemes which have been quite successful.

In spite of the fact that RCBs operate throughout the country, the three northern savannah regions, which are considered the poorest regions, are the least served. There were a total of 14 RCBs in that part of the country compared to 115 in the rest of the country, consisting of seven regions (ibid). RCBs are increasingly moving into urban areas where they make more profits. For example, the head office of the Nsoatreman Rural Bank (NRB) is now located in Sunyani, the regional capital, instead of Nsoatre where the bank was originally established. The urbanisation of rural banks was so widespread that in 1998 the Bank of Ghana reviewed and enforced the rule of limiting operations to specific locations.

Rural Banks in Ghana operate under an apex institution known as the Association Rural Bank (ARB). It was established in 1998 to provide a technical and advocacy role for rural banks. Some of the functions of the BoG have been delegated to the ARB apex bank. The specific functions of the ARB are: cheque clearing; organising training programmes, supervision and regulation, rural deposit insurance and research and innovation.

#### *4.4.1.3 Savings and Loans Companies (S&Ls)*

The S&L companies licensed under the Non-Bank Financial Institutions Law 1993 are restricted to a limited range of financial services. They are most active in micro and small-scale intermediation employing microfinance methodologies (Steel and Andah, 2004). It has been suggested that the S&Ls were created after the banning of susu companies that operated illegally in Ghana in the 1980s. In 2004 there were 9 licensed S&Ls with more than 160000 depositors and 10000 borrowers (ibid). By 2008 the BOG had registered 15 S&L companies (BOG 2008). It is important to note that all 15 S&L companies are located in the two largest cities in the country—Kumasi and Accra. Jean et al (2005) confirm that S&L companies mostly serve the urban populace and that only one S&L institution has a rural branch. Their lending practice includes both group and individual savings with credit schemes with existing occupation-based groups (ibid).

### 4.4.2 Semi-Formal Institutions

These institutions are required to register as legal entities but are not licensed by the Bank of Ghana. Credit Unions (CUs) and Financial Non-Governmental Organisations (FNGOs) are classified as semi-formal financial institutions. Below is a brief introduction and discussion of the existing classification of the semi-formal financial institutions existing in Ghana.

#### *4.4.2.1 Credit Unions (CUs)*

Credit unions are registered by the Department of Cooperatives as thrift societies that can accept deposits from and give credit to their members (Jean et al., 2005; 5). Credit Unions were initially established as institution-based organisations or aimed towards people on regular incomes. In recent times however, CUs have opened up to a wider variety of clients in the community where they are based. The apex body of the CUs, the Ghana Cooperative Credit Union Association (CUA) regulates the interest rates that CUs have to pay on members' savings and charge on loans, perhaps reflecting the initial welfare nature of credit unions (Andah, 2005). MASLOC[30] is experimenting with the CUs as avenues for reaching the poor using microfinance methodologies.

CUs were initially licensed under the NBFI Law 1993. Currently, a Credit Union bill that reflects the dual nature of Credit Unions as cooperatives and financial institutions is currently before parliament. At the end of 2005 there were about 273 credit unions in Ghana (Jean et al., 2005). CUA runs a Central Finance Facility into which member Credit Unions contribute and source funds to lend to their members. Some NGOs are

[30] Microfinance and small loans centre (MASLOC) is a government organization responsible for regulating the microfinance industry in Ghana. For more see pg 11

assisting in the formation of credit unions in villages and poor areas (ibid). The Department of Cooperatives has a supervisory role over the activities of the credit unions.

#### *4.4.2.2 Financial Non-Governmental Organisations (FNGOs)*

NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies code. Jean et al (2004) estimates that there are 29 financial NGOs in the country. Two types of NGOs that provide finance services can be distinguished; those whose core activity is finance are known as financial NGOs (FNGOs) and those NGOs who include financial services as a component of their activities. Financial NGOs could potentially transform into Savings and Loans companies in order to strengthen their operations by mobilising savings from the public, as evidenced by Sinapi Aba Trust (SAT) converting their most productive branches into the Opportunity International Savings and Loans Company.

As long as NGOs do not mobilise savings from the public, the BoG has limited interest their activities (Andah, 2005). Any deposits they take from borrowers are assumed to be non-voluntary security deposits or security against further loans which the NGOs return to borrowers after successful completion of a loan cycle or upon withdrawal (Gallardo et al., 2005). The poverty reduction orientation of NGOs means that they penetrate deep into the poor clients' base using microfinance methodologies (Steel and Andah, 2003). In this regard, NGOs have played an important part in getting financial services to the northern part of the country where commercial and rural banks are relatively scarce (ibid).

### 4.4.3 Informal Financial Systems

The informal financial sector is made up of organisations or persons engaged in financial services beyond the scope of banking and formal financial institutions (Aryeetey, 1994). They are neither licensed nor regulated by the financial regulators and their transactions hardly ever involve any legal documentation, Transactions are usually based on verbal and oral agreements (Ashley, 1986; Steel et al., 1997). Consequently, informal financial systems are usually physical proximity- and relationship-based. This helps to reduce information asymmetry, default and enforcement costs which are applied through social sanctions, peer pressure and interlinked transactions (Onumah, 1998). Informal financial systems encompass a wide range of financial activities; itinerant deposit (susu) collectors, moneylenders, trade creditors, rotating savings and credit associations (ROSCAs), savings and credit clubs. The informal system also includes self-help groups, personal loans from friends and relatives (Steel and Andah, 2003). As informal individual agents and institutions without corporate identity and business license, informal financial systems appear to remain outside the law, and BOG officials have repeatedly indicated no interest in attempting to supervise them, but rather the need to observe their activities for possible infringement of the laws (Steel and Andah, 2003).

#### *4.4.3.1 The Susu Scheme and the Itinerant Deposit (susu) Collector*

Popularly referred to as susu collectors, the itinerant deposit collectors organise what are known as mobile mini-banks, collecting deposits from clients from their homes and place of work (Onumah, 1998). Susu collectors, who are mostly males, collect an agreed-upon amount from clients at regular intervals, usually daily. Deposits are mostly collected from women petty traders and others with regular streams of incomes from off-farm businesses. The money is meant to be securely deposited for a specific period of time, usually one month. At the end of the agreed period, the deposit, less a small commission (usually equivalent to one day's contribution), is returned to the depositor (IFAD, 2000). Susu collectors usually deposit these funds with a bank or invest funds in their own businesses or lend it to other people including depositors.

According to Onumah (1998), like all informal financial systems, no formal agreements are involved in the transactions and record-keeping are kept to the minimum to reduce administrative costs. Additionally, susu collection is based entirely on personal trust with no regulation or supervision. Susu collectors are notorious for making away with funds of depositors (Aryeetey, 1994). In spite of their proven ability to mobilize funds from micro-entrepreneurs, susu collectors are severely constrained as effective rural intermediaries because of their limited capacity to engage in lending (Onumah, 1998).

In recent periods, there is increasing linkage between susu collectors and formal financial institutions. For instance, the Barclays Bank, working with individual susu collectors in a scheme called micro-banking,  had collected about £23 million and had granted loans to the tune of about £500000 in their first 18 months of operation They further estimated that an amount of about £151million could potentially be mobilised in the informal sector (Ghana Business and Finance, 2007).

The susu scheme has become an important source of fund mobilisation in Ghana in rural areas. Most of the Rural and Community Banks (RCBs) now routinely employ the susu methodology to mobilise savings from small and medium scale enterprises. An association called the Ghana Cooperative Susu Collectors Association (GSCCA) made up of individual susu collectors has been set up and it is gradually spreading its influence nationwide.

#### *4.4.3.2 Money Lenders*

Moneylenders in Ghana provide loans usually as a part-time activity and often using surplus funds from their main occupational activities. In spite of the Moneylenders Ordinance of 1940 and 1957 that provides a legal framework for their operations, most of them, especially those in the rural areas tend to be unregistered (Onumah, 1998). Moneylenders in Ghana are usually wealthy cocoa farmers, traders and increasingly government employees who have access to funds from the banks.

Like other informal finance schemes, moneylenders' activities are relationship-based. Detailed knowledge of the locality and borrowers ensures that moneylenders have an accurate estimate of borrowers' capacity to repay, thereby ensuring low rates of default. This implies that screening, appraisal and monitoring costs are low. Amounts of money lent out by moneylenders are usually of a short period and can vary from a few pounds to hundreds of pounds. Loans may be granted with or without collateral, depending on the relationship, knowledge about the borrower or amount involved. Loans are usually taken for emergency or other purposes such as urgent medical expenses, funerals, weddings, and school fees. Due to the high interest rates, loans from money lenders are seldom used for farming activities or other income-generating activities. Interest rates on loans tend to be relatively high and can range from 10% to 100% per month.

According to Steel and Andah (2003), if collateral is required, physical assets such as buildings, farmlands, undeveloped lands are the most preferred. In some situations, verbal guarantees from family heads, friends and relatives may also be accepted as security. Compared to commercial banks, moneylenders incur few transaction costs in enforcing pledges of such collateral, as the moneylender can simply make use of the property until the debt is repaid.

Moneylenders are often vilified for charging such usurious rates but are acknowledged in the literature as being effective in their lending activities, especially in keeping their transaction costs very low. In spite of the rather high interest rates they charge, they are much sought after in Ghana because of their swiftness in providing loans and the flexibility in their transactions.

#### *4.4.3.3 Trade Creditors*

Trade creditors, like moneylenders, provide credit but mostly for specific purposes. In Ghana trade creditors include traders, shopkeepers and fishmongers. Trade creditors usually provide what are known as interlinked loans. Interlinked transactions represents a form of lending where materials, equipment and cash loans are made available to mostly farmers, fishermen and other tradesmen in return for the prerogative to purchase the outputs of the borrower (Steel et al., 1997). The most common trade credit transactions in Ghana are between middlemen and farmers. Interest rates are much lower compared to the moneylender's. Ashley (1986) notes that providing credit is usually supplementary to the trading activities of trade creditors and that providing credit as a strategy to secure the produce of borrowers is more important than interest earned on loans. However unlike moneylenders, trade creditors are known to offer safekeeping of funds for farmers and other people to whom they lend money.

#### *4.4.3.4 Rotating Savings and Credit Associations (ROSCAs)*

Rotating savings and credit associations (ROSCAs), also known as susu groups, are founds most parts of the country. Members contribute fixed amounts into a common pool at regular intervals (daily, weekly or monthly, depending on patterns of income flows). The joint fund is handed over to each member in turn until everyone is served. In Ghana membership of ROSCAs tends to be found among petty traders and employees.  Preliminary screening, cohesive and small (averaging about 12 members) group sizes ensure that default rates are kept to the minimum. Steel et al. (1997) have noted that ROSCA funds are spent on consumer goods (in the case of employees) and as working capital for traders. While ROSCAs in principle ends after a full rotation, some continue for long periods (ibid).

#### *4.4.3.5 Accumulating Savings and Credit Associations (ASCAs)*

Another variant of susu is the accumulating savings and credit association (ASCAs). Like ROSCAs, ASCAs in Ghana are mostly found among traders and employees. With ASCAs in Ghana, members, averaging 37 persons jointly make regular savings with the objective of raising lump sums for various purposes such as paying fees and acquiring consumer items (Steel et al., 1997). ASCAs permit borrowing by members and non-members at high interest rates to increase the accumulated savings. At the end of an agreed period, amounts accumulated including any interest earned are shared among members. ASCAs are slightly more complex than ROSCAs because some amount of record-keeping is required to keep track of payments and borrowing transactions.

#### *4.4.3.6 Social Networks*

Social networks in this context refer to family, kindred organizations and friends who constitute a form of financial reservoir which people draw on. Ghana has no public social welfare system and it is these social networks which perform that role. The influence of social networks as a financial resource is usually understated, especially in rural areas of Ghana. Traditionally, the extended family is the first port of call when a member requires financial resources for any venture or in an emergency situation. Members of the extended family are required to offer financial assistance during times of emergencies and crises such bereavement, illness, drought, and floods. In most parts of Ghana children are obliged to take care of aged members of their extended family. In recent times, remittances from people abroad to their extended family members in Ghana has become a very important source of financial assistance in Ghana. According to Addison (2004), remittances (private unrequited transfers) increased from around US$200 million in 1990 to about US$1 billion in 2003. The Bank of Ghana estimates that informal transfers are at least as high as recorded flows.

### 4.4.4 Role of Government[31] and Development Partners[32]

The government of Ghana, through its agencies, plays an influential role in the development of the microfinance industry. The overall development policy which is

[31] The government includes the activities of the Bank of Ghana, Ministries, Departments and Agencies (MDAs).
[32] Development partners include bilateral and multinational donors and their associated institutions.

encapsulated by the Ghana Poverty Reduction Strategy and the Growth and Poverty Reduction Strategy Papers make microfinance integral to the poverty alleviation efforts of the government (Gallardo 2002; Mahama, 2005; Atafori, 2006). The main agencies and organisations influential in the microfinance industry include the Ministry of Finance and the Bank of Ghana and until recently the MASLOC.

The government of Ghana over the years has played both roles of a provider of microfinance services (directly and indirectly) and as a regulator of the microfinance industry. These include:

1. Provision of subsidised credit through the commercial and development banks, and through its ministries, departments and agencies
2. Establishment of rural and community banks and the promulgation of the PNDC Law 328 of 1991 that permitted different categories of non-bank financial institutions to operate.
3. Policy-oriented projects and microfinance programmes such as Financial Sector Improvement Project, Financial Sector Strategic Plan, Rural Financial Services Project, Social Investment Fund, Community-Based Rural Development Programme, Rural Enterprises Project, Agricultural Services Investment Project, Non-bank Financial Institutions Project, Poverty Alleviation Fund, and the Microfinance and Small Loans Centre.
4. Formulation of the of the Ghana Microfinance Policy (GHAMP).

The Microfinance and Small Scale Loans Centre (MASLOC) deserves special mention because it is supposed to be the government umbrella body that oversees microfinance activities in Ghana. MASLOC was established in 2004 to serve as an apex institution of microfinance sub-sector and to undertake reforms and development to strengthen microfinance as an effective and viable strategy for poverty reduction. In addition to being responsible for disbursing government funds for microfinance activities, MASLOC is to ensure the judicious management of government and development partners' funds for microfinance. The organisation is also responsible for facilitating the emergence, development and growth of sustainable and decentralised microfinance services (Mahama, 2005). However, MASLOC is presently preoccupied with the provision of financial services than its regulatory functions. Reflecting on how badly many government-sponsored microfinance schemes have fared in the past, it is surprising that government still directly engages in microfinance activities. It is hardly surprising that after three years of disbursing microfinance funds, repayment rates have been very poor. In addition to MASLOC is the Ghana Micro-Finance Institutions Network (GHAMFIN), an association of microfinance institutions which endeavours to coordinate and support activities of microfinance institutions with the aim to develop an efficient and sustainable microfinance industry in Ghana.

Ghana's development partners have been involved in microfinance activities. The United Nations Development Programme (UNDP) Microfinance Project, the British DFID and CIDA are examples of some institutions involved in the provision and development of microfinance in Ghana. Most of these institutions have assisting in building sustainable microfinance institutions.

### 4.4.5 The Financial Regulatory Framework and Microfinance

How does the financial regulatory framework of Ghana affect microfinance? Gallardo (2002) notes that firstly, the national financial regulatory framework is structured to enable FNGOs to establish linkages with the formal financial sector and to develop into licensed and regulated financial institutions. Secondly, close collaboration among some microfinance advocacy institutions like GHAMFIN, and the BoG and the Ministry of Finance have resulted in better understanding of microfinance methodologies such as the use of group guarantees as acceptable collateral in microfinance loans. Thirdly, government continues to grant concessions such as tax exemptions to rural banks and credit unions as an incentive for pursuing microfinance programmes. In addition to these, rural banks, credit unions and other financial institutions serve as conduits for channelling government funds in the form of microfinance services to the poor.

In setting prudential standards, the BoG made adjustments for Rural and Community Banks (RCBs) and Savings and Loans companies (S&Ls) in recognition of their unique position as microfinance institutions. In effect the RCBs and S&Ls have significantly less minimum capitalisation requirements compared to the universal banks. It is important to note that while the government endeavours to provide an enabling atmosphere for the development of microfinance, certain microfinance institutions lose out. Institutions that can lobby the government for subsidised credit will have an advantage over others who are on their way to achieving financial sustainability. According to Gallardo (2002), in Ghana experience has proved that government-promoted apex organisations pose a significant risk of distorting the allocation of scarce financial resources and competing unfairly against private microfinance institutions because of their access to subsidised resources, thereby stymieing the growth of other institutions.

Among other challenges to the development of microfinance in Ghana, the significant issue is the grey area between formal and informal microfinance institutions. For instance, currently there is a debate on what constitutes an informal susu collection scheme and an institutionalised susu collection scheme. The institutionalised susu collection scheme is illegal under the financial laws. There are increasingly many susu schemes being established and so are instances of misappropriation of the savings of the poor.

In general, Ghana's microfinance institutions continue to offer services to only a narrow range of clients and few of them have direct linkage with each other. This has resulted in a large chunk of the poor without access to convenient credit and secure savings options. In addition there are very few vertical linkages between the various financial institutions. Apart from susu, there has been very little effort expended in developing the informal financial schemes into viable formal institutions.

In conclusion, Ghana's political and economic environment looks conducive for microfinance activities. However, there is no clear definition of informal institutions and which is increasingly being exploited by organised susu collection schemes often to the detriment of the poor. The financial regulatory framework of the country induces NGO microfinance institutions to upgrade and offer financial intermediation. NGOs that are unable to upgrade are faced with constraints in providing essential savings facilities to the poor because they cannot legally provide savings facilities to the public. Overall the government and their development partners have demonstrated the will to make microfinance a tool for alleviating poverty in Ghana.

### *4.5 Nsoatre: Economic, Financial and Socio-Cultural Setting*

The study area, Nsoatre, is located in the Sunyani District of the Brong Ahafo Region of Ghana. It is the main settlement which lies on the main road between Sunyani, the regional capital and Berekum, the second largest town in the region. Its geographical coordinates are 7° 24' 0" North and 2° 28’ 0" West (see Appendix 6 for the map of Nsoatre in the Sunyani District). The people of Nsoatre are Bonos, which is a subset of the Akan ethnic group, the largest ethnic group in the country. The results of the 2000 census put Nsoatre’s population at 16,614 (Ghana Statistical Service, 2001**).**

#### 4.5.1 Economic and Geographical Characteristics

In Nsoatre about 87% of the economically active group of the population are engaged in the agricultural sector (Yeboah, 2001). They consist of subsistence farmers who cultivate food crops such as maize, yam, plantain, cassava, cocoyam and vegetables. Few farmers are able to cultivate lucrative cash crops like cocoa and oil palm because of irregular rainfall patterns and increasing soil infertility. About 5% are employed by the government and private individuals. Such employees are likely to be teachers, sanitary workers, drivers and health workers. Market traders, artisans, shopkeepers, and subsistence trading activities make up the rest. It is to be noted that these occupational categories are not mutually exclusive. Almost all persons primarily engaged in non-farm occupations are likely to be engaged in some form of farming activity as well. Nsoatre is located between the two largest towns in the region, Berekum and the regional capital Sunyani. The location of the town, which is between the two largest towns in the region, has adversely affected its markets. Larger businesses and producers are attracted to the bigger towns nearby where they experience greater demand. Nsoatre therefore has very few large private businesses that require employees. In rural areas, an important determinant of the demand for goods and services in a community is the availability of satellite settlements. Availability of settlements implies bigger weekly markets and increased demand for goods and services. Nsoatre has very few satellite settlements and this has contributed to the low demand for goods and services. Like most food crop-producing rural communities in Ghana, Nsoatre has a limited economic capacity and is relatively poor. Ocran and Adjasi (2009) have noted that although food crop farmers constitute about 39% of the economically active population, they account for almost 60% of the poverty in Ghana between 1998 and 1999.

## 4.5.2 Financial Facilities in Nsoatre

Financial facilities in Nsoatre are made up of a formal banking institution, two semi-formal institutions and many informal financial arrangements. Informal financial systems seem to play a more important role compared to semi-formal or formal.

### *4.5.2.1. Social Networks*

Borrowing and lending among family members constitute an important source of financial facility in rural areas. Nsoatre is composed of clans[33], with each clan responsible for financing and performing funeral activities and assisting members of the clan in need of help. Extended families[34] within the clan are usually the first to be

[33]The clan is a collection of extended families who trace their ancestry to one common progenitor. Relationships among clan members are not as strong as the extended family.

In the case of Nsoatre, which observes the matrilineal system, family usually implies relatives from one's mother's lineage. [34]

consulted when a member requires financial assistance. The function of social networks as discussed in section 4.4.3.6 applies in the case of Nsoatre.

#### *4.5.2.2 Moneylenders*

These ubiquitous members of society were not easily identifiable in Nsoatre. Their business, according to Steel and Andah (2004) is shrouded in secrecy because they are required to register with the police under the Money Lenders Ordinance 1957, which apparently no moneylender does. Moneylenders do not advertise themselves and the researcher had to expend much effort in getting information about them. The number of moneylenders was quite difficult to assess few would admit being moneylenders. Moneylenders in Nsoatre were relatively wealthy cocoa farmers, traders and government employees. For many of them money-lending was a part-time business.

Interest rates varied from 0% to 1200% percent per annum, depending on the relationship with the borrower. For instance, when the researcher contacted a moneylender for an amount of about £50 for a period of a month, the interest rate quoted for the period was 40% (480% per annum). The moneylender, in this instance required a guarantor. Most moneylenders do not require collateral but others do demand some collateral in the form of jewellery, cocoa farms, land, unharvested food crops or a guarantor. Members of the community usually borrow for emergencies such as funerals, illness and other crisis situations. Monies can also be borrowed for school fees and more recently for sponsoring family members to travel abroad. In spite of the presence of formal microfinance institutions, investigation proved that demand was high for services of moneylenders in Nsoatre. This is perhaps due to the swiftness of obtaining a loan and the flexibility in payment: one could request for loan and receive it that very day

#### 4.5.2.3 The Individual Itinerant Deposit (Susu) Collector

Individual susu collectors provide collection and safekeeping of monies for mostly market traders, artisans and other micro-entrepreneurs in Nsoatre. Investigations revealed that before that advent of the NRB Susu Scheme, there were about four susu collectors in Nsoatre. The NRB Susu Scheme had displaced the susu collectors so that there was only one operating during the fieldwork period. The NRB Susu Scheme, in addition to not taking commission, offered customers loans after they had saved for a period of time.

#### 4.5.2.4 Formal and Semi-Formal Financial Institutions

Four formal and semi-formal financial institutions provide microfinance services to the community of Nsoatre; Microfinance and Small Scale Loans Centre (MASLOC), Nsoatre Cooperative Credit Union, Sinapi Aba Trust and the Nsoatreman Rural Bank. At the time of the fieldwork MASLOC had just began business in Nsoatre, giving loans to individual entrepreneurs. Nsoatreman Rural Bank operated two microfinance interventions: NWEP and a Susu Scheme. Nsoatre Cooperative Credit Union (NCCU) had begun a microfinance scheme with funds from MASLOC. Lastly Sinapi Aba Trust was in Nsoatre and operating a group-based microfinance scheme. The NCCU, MASLOC and Susu Scheme are briefly described next, while that of SAT and NRB are comprehensively discussed later.

The NCCU was established in 2002 and up to 2007, membership of NCCU was restricted to people with regular incomes such as government workers and traders. In 2007 NCCU expanded their clientele to include farmers and other people in the informal sector who do not have regular incomes. NCCU has experienced rapid growth since then. The NCCU also operated a group lending methodology with funds from MASLOC. Interestingly loans were given out at a subsidised rate of 10% (market interest rate between 25 and 30%). According to the NCCU manager there had been no defaults in repayment since the scheme begun.

MASLOC's activities in Nsoatre began close to the end of in 2007 and apart from providing funds to the NCCU, it had provided individual uncollaterised loans for non-farm enterprises. Investigations revealed that initial repayment rates were not very impressive compared to NCCU. This is perhaps a result of the perception of MASLOC's loans as government gifts which were not meant to be repaid. As happened in the past, microcredit with the connotation 'government' is a recipe for repayment problems and subsequent collapse.

The NRB established the Susu Scheme begun in 2007 and offers both savings and loan facilities to service users who are mostly engaged in income-generating activities. Loans to service users are offered through the group lending method. NRB is currently experiencing liquidity problems and interviews indicate that the Susu Scheme savings mobilisation drive plays an important role in the sustenance of the bank. The Susu Scheme is in its nascent stages but has been described as very successful by the NRB.

#### *4.5.2.5 Previous Microfinance Activities in Nsoatre*

Microfinance literature suggests that people's previous experience of unpaid loans and rural financial schemes that have failed can potentially influence subsequent microfinance interventions negatively. In the past Nsoatre benefited from government subsidised agricultural loans from the Agricultural Development Bank and the Ghana Commercial Bank. Like what happened in other parts of the country, repayment rates were very poor. The government then established the Poverty Alleviation Fund[35] (PAF). This scheme failed due to heavy political interference in loan allocation and the people's perception that the funds were a reward for voting certain political parties into power. In sum, any microfinance scheme qualified by the word 'government' has or will have a high probability of failure in Nsoatre as in other parts of the country. On the other hand, Nsoatreman Rural Bank had successfully administered other financial schemes such as IFAD's SCIMP[36] among others.

### 4.5.3 Salient Socio-cultural and Poverty Characteristics of Nsoatre

Nsoatre is a matrilineal society with relatively moderate patriarchal tendencies. Women can own property such as land and buildings. However, ownership of most farmland is usually vested in the clan or extended family. Individual ownership of farm land, on the other hand, is not uncommon.

The state and type of housing has been employed as an indicator of the level of poverty. For example, Credit and Savings for the Hardcore Poor (CASHPOR) an Indian microfinance institution, identifies the very poor using the aforementioned criterion. Nsoatre does not exhibit any significant spatial patterns with regard to incidence of poverty. Several nuclear families belonging to the same extended family and of varying socio-economic status might live in what is referred to as a 'compound house', which consists of several rooms built in square or rectangular shape with an

[35] This facility was administered through the District Assemblies (DAs) as a revolving fund for income generation. The DAs were expected to set aside 10% of their transfers from the central government for this facility

[36] SCIMP stands for Smallholder Crop Improvement and Marketing Project

open space or courtyard in the middle. Sometimes families in a compound house will be lucky to have a wealthy member who will renovate the entire building. By observation it is quite difficult to tell differences in poverty using type of accommodation as an indicator. However, summary of interviews on poverty collected during the main data gathering period showed three significant physical manifestations of poverty: not having enough or acceptable food to eat therefore looking emaciated; not able to afford decent clothing indicating inability to attend social gatherings; and inability to enrol one's children in school.

To sum up the area of study, Nsoatre, is a typical rural community largely unaffected by activities of the surrounding urban communities. Food crop farming is the main occupation of the people. Nsoatre has poor markets because of its lack of satellite settlements. The society is patriarchal but this is tempered by the matrilineal system of descent. Women can own property such as land and buildings. Five microfinance interventions were identified in the community with all of them targeting people already engaged in some form of income-generating activity. Informal financial services do exist but investigations by the researcher indicate that their activities were on the wane with the advent of formal microfinance institutions such as Sinapi Aba Trust (SAT) below.

## 4.6 Background of Sinapi Aba Trust (SAT)

Sinapi Aba Trust (SAT), a Non-Government Organisation (NGO) was established in 1994 under the laws of Ghana as a company limited by guarantee to support the economically active poor through microfinance and basic business training (SAT, 2007). SAT's major objective of providing microfinance was towards poverty reduction. SAT is a member of the Opportunity International Network (OIN), an international Christian NGO engaged in the development of micro-enterprise in over 40 countries and headquartered in Chicago, USA (ibid). The name ‘Sinapi Aba’ refers to the biblical tiny ‘mustard seed’ which grew into a mighty tree. In the same token, SAT, by providing the poor with relatively small amounts of money, intends to give the economically poor the opportunity to expand their income-generating activities. Although SAT is a Christian organisation, it caters to people of all religious persuasions. However, their activities are heavily influenced by Christian values. SAT’s major source of funding for its activities continues to be equity (53%) (Planet Rating, 2007). In addition to financial resources from Opportunity International, SAT receives funding from many other sources including Agence Française de Développement, DFID, Hilden Charitable Fund (UK), Microstart (UNDP), USAID and currently MicroVest and Calvert Foundation (Steel and Andah, 2003; SAT, 2007).

Currently, SAT, with its headquarters in Kumasi, is the second largest non-bank microfinance institution in the country with regard to client outreach and the third largest in loan portfolio (Steel and Andah, 2003). SAT operates in all the 10 administrative regions of the country with 18 branches and 2 agencies with over 50, 000 members (SAT, 2007). At the time of the fieldwork[37], SAT in Nsoatre had 8 groups with membership ranging from 8 to 20 members.

[37] The fieldwork took place between August 2007 and January 2008.

### 4.6.1 Organisational Structure

This section borrows heavily from the Planet Rating (2007) report; this is a Global market Rating Agency[38]'s assessment of SAT. As an NGO, SAT has no owners. It is governed by an eleven-member Board of Directors (BOD) including an Executive Director (ED). The BOD appoints the ED who carries out supervisory control over management through various committees (Executive, Finance and Audit, Human Resource Development, Legal/Non Finance).

SAT's management is composed of a core and a general management. The core management consists of the ED and four heads of departments (F&A, IT/MIS, Chief Operations Officer and the Non-Finance Manager). The general management comprises of the Area Manager (AM) who supervises the various branches within the region, HR, Administration, Marketing, Monitoring and Evaluation (M & E), Micro Save, Transformation, Research and Development (R & D), and Branch Managers (BM). The branches are headed by a Branch Manager (BM). Under the BM are the Finance Services Supervisor (FSS is equal to a senior loan officer), one Finance Services Officer (FSO is the equivalent of a loan officer), an Account Officer and a Branch Operation Assistant (BOA).

The headquarters is responsible for planning, strategic decision-making, preparation of consolidated financial statements, elaboration of procedures, recruitment, search for additional funds and external relationship with stakeholders and regulatory bodies.

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[38]See more information see:
http://www.mixmarket.org/en//medias/media.player.asp?MediaID={073D3A79-663D-4960-8059-E713BB9E32E3}&EntityID={9FA4C8C1-56E6-426F-951F-04287B8F5D12}&pxy=1397519625

Branches are responsible for loan disbursements, repayments, promotion of products and training of clients. Disbursements are approved by BM or FSS based on FSO analysis. FSOs, under the supervision of FSS/BM disburse loans to each group member. Repayments are supervised and collected by FSO's, who then give them to the BOA to deposit the money at the bank.

### 4.6.2 Activities of SAT

SAT has microfinance delivery as their core activity. They provide small loans to individuals and groups already established or the productive poor in the following sectors:

- Artisans- tailors/designers, shoe makers, plastic/leather bags makers, furniture makers, handicraft producers etc.
- Food industry- *chopbars*/food sellers, bakers/confectionary, restaurants etc
- Agriculture- poultry farmers, vegetable and food crop farmers among others.
- Trading- traders in agricultural produce such as beans, maize, yams, various types of vegetables, shopkeepers, other retailers etc.
- Services- hairdressers, communication centres etc.

Sinapi Aba Trust integrates training programmes into the provision of microfinance services. Non-financial services provided include entrepreneurial skills development, credit management, and records-keeping. SAT also offers services in the form of technical advice, institutional capacity-building, supervision, monitoring and evaluation to support the development of microfinance and other development-based institutions. The NGO also provides consultancy services to other institutions (SAT, 2007). SAT also offers the awareness creation and counselling services on HIV/AIDS and Youth Apprenticeship Programme (YAP) that provides the youth with employable skills. SAT employs three main methodologies to deliver financial services to the service users: individual lending, trust bank lending and solidarity lending.

#### *4.6.2.1 Individual Lending Method*

The individual service user is permitted to apply for credit from SAT. This is similar to the orthodox lending method employed by the commercial banks. The applicant has to undergo through some training before the loan is granted. Loan applicants are required to present some form of collateral in the form of a guarantor or immovable property. The amount of loans offered under this lending method is usually larger than that given to the poor. Individual loans are between 200 and 10,000 USD and payable within a maximum period of 10 months. Individual lending occurs mainly in the urban areas.

#### *4.6.2.2 Trust Bank Lending Method*

This refers to the group-based lending scheme. Groups of poor and economically active persons apply for credit under the joint liability method. Between 20 and 30 members form a group referred to as a trust bank. The group was further divided into smaller groups of between 5 and 7 members. The group is then given training on credit management, leadership and health training. Other training services are offered periodically. Individuals in the group are offered variable microloans depending on their individual circumstances. Loans are repaid weekly or fortnightly depending on the mutual decision reached with loan officers.

#### *4.6.2.3 Solidarity Group Lending*

This is the progressive step after the trust lending method. The solidarity and trust bank methods are essentially the same with the difference being that the solidarity groups are smaller (average 5 members), have much larger loans and more flexible terms. To graduate to the solidarity group a member from the trust bank should have successfully gone through four cycles and demonstrated business growth. Both the Trust Bank and Solidarity Groups take loans from 100 to 2000 USD for a maximum period of 32 weeks. 10% of this is deducted as compulsory savings, 2% for a welfare scheme (explained below) and 3% as processing fee. The nominal interest rate is 35% (flat) which translates into an APR of about 95%.

#### *4.6.2.4 Asset-based Loans*

Sinapi also offers individual asset loans that enable their service users to buy various types of business assets. Items normally purchased are sewing machines, hair dryers, cooking utensils, gas stoves and ovens. These loans can be taken alongside other various schemes enumerated above

#### *4.6.2.5 Client Welfare Scheme (Insurance)*

SAT operates an insurance product known as the client welfare scheme. It covers the risk of death or debilitating illness while the service user is servicing a loan facility. The product was developed to remove the burden of repaying the loan of a member of a group who is deceased or severely ill. For instance, HIV/AIDS patients who are too ill to engage in productive activity and unable to service a loan qualify under the client welfare scheme. For client welfare scheme contributions, SAT levies 2% on any amount borrowed by a member which is added to the interest charged.

### 4.6.3 Performance

SAT achieved a gross loan portfolio of USD 8.5 million with less than 2.0% portfolio at risk as of march 2007. By 2005, the NGO reached out to close to 35, 000 clients (92% women) and had increased profitability with growth rates of 150%[39]. In collaboration with Opportunity Transformation Investment (OTI) of Opportunity International, SAT established a non-bank financial institution (Opportunity International Sinapi Aba Savings and Loans Limited) that required the transfer of about half of SAT's portfolio to this new organisation, resulting in a reduction of clients and portfolio in 2004 and 2005. By managing to sustain growth after the final transfer is a clear manifestation of the robustness and resilience of the organisation. Table 4.2 shows a summary of performance of SAT between 2002 and 2006.

**Table 4.2: Selected Performance Indicators: SAT (2002-2006)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Value of Loans Disbursed (GH¢)** | 3, 872, 356 | 6, 025, 512 | 9, 270, 170 | 11, 120,600 | 16, 947, 150 |
| **Value of Loans (GH¢)** | 1, 579, 954 | 2, 793, 963 | 3, 758, 161 | 2, 829, 844 | 6, 730, 626 |
| **Operational Sustainability** | 140% | 126% | 94% | 145% | 117% |
| **No. of Loans** | 34, 695 | 50, 333 | 66, 125 | 62, 565 | 69, 266 |
| **Financial Sustainability** | 104% | 94% | 82% | 127% | 103% |
| **Arrears rate >30 days** | 3.90% | 3.00% | 0.93% | 1.22% | 0.97% |
| **Portfolio at risk >30 days** | 8.61% | 5.24% | 1.31% | 1.80% | 1.49% |
| **Cost per cedi lent** | 0.18 | 0.17 | 0.30 | 0.13 | 0.15 |
| **Number of Clients** | 26, 615 | 41, 803 | 51, 393 | 34, 632 | 51, 686 |
| **Percentage of women** | 93.50% | 92.02% | 85.00% | 95.00% | 92.00% |

Source: Sinapi Aba Trust (2007)

In sum, SAT is an FNGO with the main motive of reducing poverty through microfinance. It employs the credit-plus and uses the group lending methodology in rural areas. The institution seems to have a strong organisational structure with well-

[39] This information was retrieved from the Calvert Foundation & MicroVest website: http://www.microvestfund.com/news/MicroVest%20Invests%20in%20Sinapi%20Aba%20Trust.pdf

defined goals. Although SAT has witnessed strong growth, the background information does not show how much the intervention really performs with regard to poverty reduction. The service users are hardly mentioned or described in information used.

## *4.7 Nsoatreman Rural Bank and Nsoatreman Women Empowerment Programme*

Nsoatreman Rural Bank Limited (NRB) was established in Nsoatre under the Companies Code of 1963 (Act 173) in October 1984 (Owusu Ansah, 1999). In that same year the bank was licensed to operate as a formal banking institution by the Bank of Ghana (BOG). The capital base of the NRB was obtained through the purchase of shares by members of the communities of the catchment area. NRB was established at a period when commercial banks in the country were downsizing through closing down their least performing branches which were usually those in the rural areas. Thus NRB, in addition to providing financial service to the unbanked poor, filled the gap created by the withdrawal of commercial banks from the catchment area of the bank. Currently, NRB has six branches all located in the Brong Ahafo Region of Ghana. Apart from the profit motive, NRB aims to improve the catchment area's standard of living by mobilising resources to support economic activities and assisting to develop infrastructure such as education and water (Owusu Ansah, 1999). Over 50% of the bank's clients are engaged in agricultural activities, 30% in commerce and trading activities and 20% in cottage and other industries (ibid).

Although RCBs in Ghana (which includes NRB) have been categorised as microfinance institutions, they are strictly not microfinance institutions because their prime objective is not to cater for the poor. They engage in all banking functions except foreign transactions and also cater for all sorts of clients: the poor to the very wealthy. NRB has been involved in many microfinance schemes such as the Poverty Alleviation Fund (PAF), a local government facility, Smallholder Crop Improvement and Marketing Project (SCIMP) project under the International Fund for Agricultural Development (IFAD) and the Rural Finance Project under the International Development Association (IDA). NRB also benefits from financial and technical support from some of the international agencies such as IDA and IFAD. Currently NRB operates two microfinance interventions: NWEP and the Susu Scheme.

### 4.7.1 Organisational Structure

Since Nsoatreman Rural Bank (NRB) overall organisational structure has little relevance to NWEP's activities and therefore it is not included in this thesis. The NRB has a microfinance section within the bank and it is headed by the general project manager (coordinator) and his assistant. There are four community promoters who manage the various groups and collect repayments on behalf of the bank.

### 4.7.2 Nsoatreman Women Empowerment Programme (NWEP)

The Nsoatreman Women Empowerment Programme (NWEP) is a Credit with Education (CwE) scheme and was introduced in 1996 by the NRB in partnership with Freedom from Hunger (FFH), an NGO headquartered in the United States. The FFH methodology, CwE, recognises that increasing incomes is only the start of the self-help process. It posits a synergistic effect between credit and education. As women congregate to repay their loans, they learn about health, nutrition, family planning and business practices. Armed with this knowledge, women use the additional income more productively to break the cycle of hunger and poverty[40].

The FFH's role in the partnership was to provide technical training and seed fund for the programme. NRB's part of the bargain was to contribute to the funds for the programme in addition to implementing the programme. Specifically, FFH contributed GH¢ 20,000 while NRB contributed GH¢ 250,000 to the programme. It was expected that the NWEP will achieve operational sustainability when the partnership ended in June 1999. It was not clear whether NWEP achieved operational sustainability after the departure of FFH. What was however evident was that the membership of NWEP had dwindled as discussed next.

From the records of the Bank, NRB started NWEP in four of the branches in the catchment area of Nsoatreman Rural Bank in June 1996 with eight community promoters and a coordinator. By December 1996 the number of Credit and Savings Associations (CSAs) were 46 with a total membership of 1054. By December 1999, the peak of the scheme, the number of CSAs had risen to 106 with a total membership of 3000. At the time of fieldwork the number of CSAs had reduced to 34mainly because of the bank liquidity problems. At the time of the fieldwork NWEP in Nsoatre had 53 active members in 3 CSAs.

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[40] Retrieved from Credit with Education: www.freedomfromhunger.org on 21st April 2008.

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### 4.7.3 Methodology

The NWEP principally employs the group lending methodology. The schemes organises five or six women into what are known as solidarity groups. Members of each solidarity group are jointly liable for loan repayment within the group. Five or six solidarity groups within the community then come together to form a Credit and Savings Association (CSA). A newly constituted CSA elects their executive members to conduct the affairs of the group. The CSA then undergoes a four-week training session on the following topics:

**Group Dynamics**

- Conflict management
- Credit association management
- Enforcing group by-laws

**Business Skills**

- Selling/Marketing
- Assessing business feasibility
- Increasing profitability

**Health and Nutrition**

- Infant breastfeeding and child feeding
- Family planning
- AIDS and STDs

After the initial training CSA members could access loans which were repayable with interest in 16 weekly equal instalments. Loans are increased after each cycle. Like

SAT, NWEP targets the productive poor who are already engaged in a business activity other than farming.

Rural Banks are profit-oriented financial institutions but they incorporate some development-oriented objectives. Rural banks, by virtue of being situated in rural areas and being legally permitted to mobilise funds from the public, can potentially play an important role in rural finance development. NRB through its two microfinance interventions aims at improving the lives of the poor. NWEP uses a revised version of the Grameen model and incorporates substantial amounts of non-financial services.

### *4.8 Conclusion*

This chapter, based on theoretical perspectives identified in chapter three, selected Nsoatre, a rural community in Ghana, as the area of study. The researcher had intimate knowledge of the customs, socio-economic characteristics, language and physical environment. Since the issue of context constitutes an important perspective of this thesis, the background of the country, area of study and microfinance institutions identified for study are examined with reference to their relationship with microfinance.

The Ghanaian political, economic and financial landscape seems conducive for microfinance interventions: a stable democratic state, relatively low inflation and low interest rates. The financial regulatory framework is tiered and encourages the formalisation of financial non-governmental organisation. The Government shows interest in using microfinance as a tool for poverty reduction. Nsoatre, although with a large population exhibits many other characteristics of rurality, and is ideal for the study. This was because of the existence of some microfinance interventions in the community which exhibited some similarities yet differed in orientation and objectives and employed different service delivery strategies. The microfinance interventions therefore offered a rich diversity of material for this study.

# CHAPTER V

# FIELDWORK AND ANALYTICAL STRATEGIES

## *5.1 Introduction*

After identifying the area of study and the microfinance interventions to be studied, the logical step is to collect data to answer the research questions. This chapter applies the theoretical and methodological approaches presented and discussed in Chapter III. If Chapter III is conceptualised as the blueprint of the thesis then this chapter constitutes the implementation of part of that blueprint. The focus here is on ensuring that strategies employed in the extraction of information from the field and its organisation and analysis is in conformity with the theoretical underpinnings in Chapter III.

The chapter begins with the fieldwork approach regarding the selection of area of study, negotiating entry and the opportunities and risks encountered by the researcher. The data collection method and how the data are analysed are presented. In the data collection exercise the most salient issue was ensuring the validity and reliability of the data collected.

## *5.2 Why fieldwork?*

For most researchers, it seems that the next logical stage after literature review is to head off into the field for data collection. Some social scientists become so attached to fieldwork in almost an ideological way that they lose sight of the strengths and weaknesses and imagine it is appropriate for all research. Bechhofer and Patterson

(2001), argue that underlying the fieldwork approach is the notion that social order is best understood through interpretation. Social order is perceived as interactive and negotiated and it is this negotiated reality that researchers aspire to study. In other words, ‘fieldwork provides the researcher with unparalleled opportunities to access these processes and the meanings associated with them’ (ibid: 97). Fieldwork is especially important for gaining intimate knowledge of people and in situations where the issue of context is crucial. Another advantage of fieldwork is that the researcher is in control of the data-collection process (Oliver, 1007). However, the quality of data obtained from the field is contingent on the researcher’s knowledge and capability.

It is advisable, before one thinks about going to the field, to conduct a thorough search for data that enables the research question to be answered. This will prevent unnecessary expenditure and interview fatigue resulting from people being subject to very frequent studies. It should be borne in mind that fieldwork constitutes an intrusion into the private lives of respondents. However, recognising the dearth of quality data, most countries, especially developed ones, have increased their data collection activities for use by researchers. The downside is that most of such data are only quantitative or may be inadequate for particular studies.

Fieldwork requires much tact, patience, endurance and preparation, especially when it involves research in developing countries. Leslie and Storey (2003) have observed that fieldwork in developing countries, especially rural areas, involves negotiating complex situations. Expectations and well-designed plans during fieldwork in developing countries may go haywire precisely because everyday life in such countries is characterised by uncertainties and flexibility with time.

Regarding this study, a thorough search revealed that there was no adequate body of already-collected data that could enable the researcher answer the research questions satisfactorily. For example the Ghana Livelihood Survey (GLS), data on a national sample of people's livelihood collected by the Ghana Statistical Service is quantitative and does not contain variables suitable for understanding how microfinance interventions are implemented. With the issue of context playing a crucial role in the study, it was imperative that data be collected from microfinance service users.

### 5.2.1 Negotiating Entry into the Field

The researcher had to apply for permission to gain access to the microfinance institutions and their users from the headquarters of the two institutions. It took about six weeks to be granted authorisation to contact the selected local microfinance institutions and service users in the area of study. The head-office of Sinapi Aba Trust (SAT) is located in Kumasi, the second largest city in the country. In the case of Nsoatreman Rural Bank (NRB), the researcher had to travel to the nation's capital, Accra, to seek permission from the Association of Rural Banks (ARB) also referred to as the Apex Bank. It took several trips and personal appeals to some key persons to facilitate such 'early' acquisition of the permits. The fieldwork began in August 2007 and ended in January 2008.

The researcher found that once in possession of the permits, the members of staff of the two institutions were helpful especially with enabling access to service users. However, very little information was obtained from the institutions themselves with regard to loans disbursed, repayment performance, and information on groups and so on. However, the two institutions readily gave out training manuals. The researcher surmised that either some of such data was not available or was considered very sensitive to reveal. NRB were more forthcoming with information than SAT. For example while NRB gave the researcher a list of groups with pictures of members with currents loans they had taken, SAT officials asked the researcher to collect such information from the groups. After providing information staff of the two institutions promised to provide assistance to the researcher when required.

Regarding gaining access to service users, it was important that the researcher's first meeting with them be carefully orchestrated so as to facilitate a smooth and voluntary data collection process. The first contact process constitutes an important act of negotiating access to service users. Robson (2002) urges researchers to regard negotiation of access as continuing process rather than a single event. The researcher initially attended meetings of both the SAT and the NRB (NWEP) members with managers of the microfinance institutions. Attending these meetings with the managers was to draw attention to the fact that the researcher had approval from the leadership for the impending exercise. The brief discussion of the study with the service users sought to establish the credibility and authority of the researcher on the impending exercise, explain what the project entailed and also to emphasise that the researcher knew much about the community. The intention was to exhibit some semblance of close relationship with the community and to build a bond of trust with the service users. This strategy satisfies Lofland and Lofland's (1984) suggestion that researchers need to demonstrate that they have enough knowledge about the community or respondents to appear competent to undertake a study. After negotiating access to the field, data collection constituted the next objective.

### 5.2.2 Preliminary Interviews

Preliminary interviews were conducted to understand women's perception of what constituted poverty in Nsoatre. Gender, especially, women's perception of poverty was particularly important since they constituted more than 98% of microfinance services users in SAT and NWEP. It has been argued that there are gender differences in perception of poverty. For instance, Kozel and Parker (2000), in an assessment of poverty in rural India, found that women placed greater emphasis on the concept of vulnerability, which frequently concerned a lack of access to social support networks, than they do on current income or consumption. Respondents were selected based on their age, type of business, socio-economic and marital status. Respondents were asked about their perceptions of poverty. They were asked whether poverty was spatially distributed, whether the poverty levels could be ascertained from the type and nature of houses in which people dwell. In all ten people were interviewed. Findings from the exploratory investigation were then incorporated into the design of the questionnaire.

### 5.2.3 Main In-depth Interviews

Qualitative interviews were employed as part of the data collection. Qualitative interviews involved an interaction between the interviewer and interviewee and it is considered a situational and generative technique of collecting information. The interview has 'its roots in a range of theoretical and epistemological traditions, all of which give some privilege to the account of social actors, agents, individuals, or subjects, such as data sources, and which assume or emphasise the centrality of talk and text in our ways of knowing about the social world' (Mason, 2002: 225).

Interviews are useful ways of getting behind participants' experiences and understanding the meaning of what interviewees say (Kvale, 1996; McNamara, 1996).

Semi-structured interviews were employed in this study. Such interviews require a reasonably open framework which permits for focussed, conversational two-way communication (FAO, 1990). Semi-structured interviews were based on an interview guide (see Appendix 7 for a copy of the interview guide). However, additional questions could be asked during the interview to enable the interviewer to probe for details and discuss issues (ibid, 1990). The semi-structured interview format is deemed to be more appropriate in situations where the researcher requires in-depth knowledge about the social phenomena but wants a certain level of control over the interview process. From the researcher's previous experience, some level of control over the interview process in rural communities is necessary to prevent interviewees straying from the research topic. The strategy was to initially ask as few questions as possible and use active follow-up strategy questions, probes, prompts, and other interventions whose flexibility will be dictated by the interview process. The researcher made use of interpreting questions during the interview to ascertain that his understanding of the respondents' information were what they intended to convey. This is an important way of ascertaining that the researcher obtains accurate in-depth information.

Semi-structured in-depth interviews were conducted with service users in the SAT and NRB interventions. Selection of respondents for interview was purposive. The criteria for choice of respondents and the number interviewed was as follows

**Sinapi Aba Trust (SAT)**

1. leaders of group (2)
2. successful entrepreneurs (2)
3. struggling entrepreneurs (3)
4. dropouts (2)
5. varying periods with intervention (3)
6. staff of microfinance institution (2)

**Nsoatreman Women's Empowerment Programme (NWEP)**

1. leaders of group (2)
2. successful entrepreneurs (2)
3. struggling entrepreneurs (2)
4. dropouts (1)
5. varying periods with intervention (3)
6. staff of microfinance institution (2)

The motive of the researcher was to engage in what is known as heterogeneity sampling or sampling for diversity, which aimed at collecting as much information as possible on the interventions using key informants. The researcher was aware of the importance of understanding microfinance from perspectives based on variables such as age, education and socio-economic status among others. However, these variables were not included in the above list because such information was collected using the interview questionnaire and analysed quantitatively. Again, to reiterate the objective of the study, the qualitative part was to deepen the researcher's understanding of the implementation process of the intervention and the quantitative to examine the effect of the implementation process on poverty outcomes.

Snowball sampling approach was used to identify potential respondents for interview. Some leaders of the NWEP and SAT schemes were first interviewed and they were then asked to identify active leaders who were responsible for the collection of repayments. The active leaders interviewed were then asked to identify successful and struggling members and those who had dropped out. In all cases the choice of respondents was purposive; respondents were selected based on information gained about them from informants. Where applicable, there was the tendency to select from the extremes for each of the above factors.

Struggling members, according to the leaders, refer to members who encounter repayment problems and have not been able to meet at least one repayment schedule, while successful ones are those who make prompt repayment. Interviewing successful and struggling members is expected to throw more light on what accounts for the difference. Specifically, interviews are expected to reveal the opportunities and constraints of intervention within the context of the community, enterprises and entrepreneurship.

Dropouts refer to previous service users who had left the intervention and had collected their accumulated compulsory savings. If a service user had taken his or her accumulated savings then it was evident that they did not intend to continue participating in the intervention. Some women temporarily drop out for reasons such as childbirth, taking care of a sick relative, leaving the area temporarily, being expelled from an intervention among others. If such people have an intention of coming back to the intervention they did not take their savings.

Hulme and Mosley (1998) discovered a positive relationship between length of time a service user has been with an intervention and reduction in poverty. Can the same be said for interventions in rural areas in the forest regions of Ghana? Services users were interviewed depending on the length of time they have been with the intervention.

Staff members of the microfinance institutions were interviewed to learn about their relationship with service users and also about the implementation process of the interventions. Officers who were directly in charge of supervising and interacting with service users were interviewed. Aside the interviews, the staff were consulted when there were any issues that required clarification. In addition the managers in charge of the two interventions were interviewed as well.

All interviews were held in the homes of respondents. The idea was that the natural setting or familiar environment will make the respondent relaxed and confident enough to answer the interview questions. Interviews were conducted during the evenings when respondents were less likely to be busy. Most respondents were quite enthusiastic about being interviewed. The researcher had a hard time explaining why he could not interview everyone. Interviews lasted for an average of about 50 minutes. During the interview the researcher assumed nothing; a lot of follow-up questions and probes were used to unearth and understand issues which emerged. In line with the interpretive approach, follow-up questioning was employed to ascertain that the idea that the respondent intended to convey had been understood.

### 5.2.4 Questionnaire Construction and Administration

The questionnaire was constructed in the field and it was informed by the preliminary analysis of the interview data. The same questionnaire was used for SAT and NWEP service users. The importance of a well-designed questionnaire that elicits valid and reliable information from respondents and additionally facilitates analysis and interpretation cannot be overemphasised (Creswell, 1999; Bell, 1999). Validity in this context means the ability of the measuring instrument (questionnaire) to actually measure the concepts that the researcher intends to measure while reliability concerns the capacity of the measuring instrument to yield the same result over time if the same cases were measured under the same conditions. In sum, while validity is concerned with accuracy of the questionnaire, reliability has to do with consistency and stability over time.

For the study, a researcher-administered questionnaire was considered the most appropriate instrument for collecting data for assessing the effect of the implementation process on poverty outcomes of microfinance interventions. In a rural area characterised by high illiteracy, with no reliable telecommunication or postal infrastructure, the interview-administered questionnaire was deemed the most appropriate. Since most of the service uses could neither read nor write, the questions (which were in English) had to translated and read out to respondents. The researcher-administered questionnaire enables questions to be explained to respondents and also result in higher response rates. Given the nature of rural contexts in developing countries, researcher-administered questionnaires 'are a good way of collecting certain types of information quickly and relatively cheaply…'(Bell, 1999: 118-9).

After the construction of the questionnaire it was pretested and what is discussed hereafter represents the pretested and revised questionnaire. The essence and pretesting process is discussed in the next section. The interview questionnaire had 52 open- and closed-ended questions in total (see appendix 8). The first 12 questions were about the background and personal information of respondents. Knowledge obtained from the in-depth interviews and the literature indicated that the occupation of spouse, indigenous status and being engaged in multiple businesses were important predictors of the poverty outcomes of microfinance interventions. As explained in Appendix I, these were intervening variables which needed to be statistically controlled in order to nullify their effect when assessing the effect of microfinance processes on poverty outcomes. The next 26 questions assessed the components of the intervention: group activities and dynamics, minimalist/credit plus, loans, interest rates and savings among others. The final part of the questionnaire consisted of 2 groups of questions, 14 in total, which sought to determine the impact of the intervention on business and on the household. Although the questionnaire seems lengthy, it took not more than 30 minutes to complete.

### 5.2.5 Pretesting

Pretesting a data collection instrument is essential for a good research process. Oppenheim (1992; 47) has noted that; ‘Questionnaires do not emerge fully fledged; they have to be created or adapted, fashioned and developed to maturity after many abortive test flights.’ Pretesting helps to unearth some of the inevitable problems related to converting of designed data collection instrument into reality (Creswell, 1994; Robson, 2002).

Pretesting the questionnaire was particularly essential because the questions were in English and had to be translated into the local language and read out to the respondents. The interviewer-administered questionnaire was pretested in Dumasua, a small community close to Nsoatre. Dumasua was deemed appropriate for the pretesting the interview questionnaire because the people's livelihood and economy was similar to that of the study area and also had a microfinance intervention operating in the town. More importantly, the same language is spoken in both towns.

Deficiencies of the questionnaire became evident during pretesting and considerable changes made. For instance, the researcher discovered that some of the questions were superfluous and others were difficult to translate into the local language. Pretesting also enabled the researcher to become more conversant with the questions and achieve consistency in their translation into the local language during interview.

The dependent variables were changed from dichotomous to a three-category ordinal variable as a result of the pretest (see questionnaire in appendix 8). It was found that for example regarding expansion of business, there were considerable fluctuations in tandem with seasonal economic fluctuations. The researcher decided to create a three-category ordinal variable with 'somewhat' representing this fluctuating pattern.

### 5.2.6 Sample Size Estimation for Quantitative Analysis

It is ideally more useful to study a whole population in a research but usually due to resource constraints researchers select part of the population. The statistical process concerned with the selection of individual observations for study with the intention of obtaining knowledge about the population is known as sampling. Statistical sampling ensures every element of the population has an equal or known[41] probability of being included in the sample (Loether and Tarvish, 1993; Abrami, Cholmsky and Gordon, 2001**).** There are many types of statistical sampling techniques and these include cluster, multi-stage, proportional, and simple random sampling. However, the common factor that underlies all these techniques is the use of random sampling during sample selection process.

The researcher decided to combine service users of NWEP and SAT into one population because of unanticipated smallness of the number (population) of service users in the two interventions. SAT had 82 active service users while NWEP had 53, totalling 135.  This tactic did not did not cause much problems because respondents in the two interventions responded to the same questionnaire.

In selecting a sample it is essential to ensure that the sample size is representative of the population being studied. This would ensure that the findings of the study are generalisable to the population. A poignant and simple illustration of sampling is compared to an act ascertaining the degree of saltiness of a bowl of soup: from one spoonful of soup we can draw some inference as to the degree of saltiness of the whole bowl of soup. How should a representative sample be selected?

The sampling literature suggests 30 cases as the minimum size for any meaningful statistical analysis (Tabacnick, and Fidell, 2001; Overton and van Diermen, 2003). In addition to purpose and size of the population, the appropriate sample size is dependent on three factors: level of precision or margin of error; the confidence or

[41] Sampling without replacement does not give sampling units an equal chance of being included in the sample. However, the problem is negligible when sampling from a very large population.

alpha level; and the degree of variability of the variables of interest (Miaoulis and Michener, 1976). The alpha level used in determining sample size in most social science research is .05 or .01, with .05 being more commonly used. According to Bartlett et al. (2001), for categorical[42] data 5% margin of error is acceptable. Israel (2009) proposes the formula below for determining the sample size for a study given the population

$$n = N/ [1+N(e)^2]$$

where

n = the sample size
N = population
e = alpha level

Israel (2009) then adjusts the resultant sample size given the margin of error the researcher is willing to accept.

Using Israel's formula the sample size is calculated as follows

$$n= 135/[1+135(.05)^2]$$
$$n= 100$$

From the above the required sample size is calculated as 100. The sample size of 100 is corroborated by a sample size estimation formula used by Lohr (2010: 40).

The sample size for the study was selected based on proportion. SAT service users constituted approximately 60% of the population while NWEP constituted the remaining 40%. The sample size of 100 was apportioned in the same percentage for the two interventions: 60% and 40% for SAT and NWEP respectively. The study ensured that members of each group in SAT and NWEP were represented in the sample. The study therefore employed the proportional sampling method. For example in selecting 40 service users from NWEP this formula was used:

[42] This study intend to use categorical data.

(40/53)* (number of service users in a group)
40 = the sample size required
53 = population of NWEP

Using the above method 7 service users were selected in a group with 10 service users. Service users were selected from each group using simple random sampling.

### 5.2.7 Administering the Questionnaire

Due to the length of the questionnaire and the anticipated difficulty in locating respondents, the researcher employed three research assistants living in the community to assist in the administration of the questionnaire: two male university graduates and a female undergraduate. Initial interviews revealed that they had some knowledge of data collection. The initial inclination was to employ only female research assistants considering the difficulties the researcher encountered interviewing female respondents (this is explained later in this chapter). However, it became clear that unlike the recorded interviews, the interview questionnaire could take place in the open without much hindrance. Male researchers were therefore suitable for the data collection exercise. One advantage of using personnel who lived in the locality was that they knew almost all the potential respondents and could easily locate them. The researcher trained them on how the questionnaires were to be administered. Special attention was paid to the translation of the questionnaire from English to the local language. As part of the training simulation interviews were employed till the assistants were adept with the process.  In addition the researcher accompanied the assistants during the initial interviews, observed and provided guidance till it was evident that they could work independently. Response rates were quite high, out of the number interviewed, only two respondents declined to be interviewed. The response to the interviews was so overwhelming that some service users not included in the sample requested to be interviewed as well. Of the 100 respondents selected for interview, three could not be traced. Altogether five respondents could not be interviewed. Another selection process based on proportional sampling was therefore conducted to make up the required sample size.

### 5.2.8 Verification of Data

Since the results and conclusions of the study depended on the data it was important to ensure that the data collected were valid and reliable. This included ensuring that the research assistants collected data exactly as they were trained to do. The potential problems associated with using others to participate in data collection are many. Among these are the ever-present problems of research assistants going wrong or deliberately 'cooking' data during questionnaire administration (Leslie and Storey, 2003). The qualitative data collected by the researcher himself using probes, cross-checking and interpreting questions ensured that data was valid. For the quantitative data collection process, the researcher accompanied each of the three assistants on their first two or three interviews to ascertain that the questionnaires were accurately administered. The assistants were allowed to go out by themselves only after they had become quite conversant in administering the data collection instrument accurately. Additionally, the research assistants' attention was drawn to the need to wary of inconsistent/conflicting responses. If they found any such irregularities, the interviewers were required to draw the attention of the respondents to the anomalies, and rectify them by probing further. An advantage of using research assistants for quantitative rather than qualitative data collection was that the interview questionnaire was quite straight forward and very little was left to the discretion of the research assistants and therefore the problem of misinterpretation and mistranslation were minimised.

In addition to these checks, the researcher visited some respondents randomly to ascertain whether they had actually been interviewed. At the end of each day, the research assistants were required to review completed questionnaires, looking out for any unanswered questions, inconsistencies or mistakes they might have committed. The researcher, at the end of each day, collected the completed questionnaire and double-checked for any indications that questionnaires were incorrectly completed or for signs of interviewers completing questionnaires themselves. The researcher decided that during the data entry stage, the data will be further checked for errors and inconsistencies and if any were found the most experienced of the research assistants will be contacted to deal with the problem.

### 5.2.9 Secondary Data

Secondary data was sourced to complement primary data collected. Overton and van Diermen (2003) claim that whether the researcher undertakes a qualitative or quantitative study, collecting secondary data is standard practice during fieldwork in developing countries. Sources of secondary information are quite vast, they include published government statistics, previous studies, newspapers, organisational reports and data and brochures. Secondary data is important not only in its own right but also to supplement or triangulate the researcher's own data (ibid, 2003).

Secondary data obtained for the study included Bank of Ghana legal instruments, document and reports from the NRB, brochures from the SAT and reports and studies from the Sunyani District Assembly. Informal conversations were another important source of information. The researcher mingled with the service users informally and was able to gain valuable insights into the perception of the service users of the microfinance interventions.

### 5.2.10 Risks and Opportunities

Risks in research refer to the possibility of harm, hazard or exposure to danger of the researcher or the researched. It is ever-present when conducting fieldwork (Lee-Treweek and Linkogle, 2000). Being a scholar from a university in a developed country (and therefore considered wealthy), the researcher was faced with general risks such as being robbed, having to part with bribes and being perceived as being insensitive to the plight of the poor. The specific risks faced by the researcher during the data collection period are discussed here.

Opportunities with reference to fieldwork process constitute positive factors that facilitated the smooth running of the data collection process. Some opportunities for the researcher included visiting the area of study at the post-harvest period there was not much farm work to do and therefore most people were available for interview. In addition people are usually in good spirits at this time of the year when they have money and food from the harvests. Specifically being an insider was a big opportunity for the data collection task.

#### *5.2.10.1 Interviewing Women*

Women constituted about 98% of the service users of the two microfinance interventions examined. Culturally, it is inappropriate for the researcher, a man, to be alone in a room with married women (most service users were married) even for an interview. When convenient and appropriate, interviews were held in the open unless the service users insisted that it was alright to conduct the interview indoors. It was always with an uneasy heart when the researcher interviewed women in enclosed places. In one instance, during an interview in the evening, the lights suddenly went out (a very common occurrence in Ghana) but the interview continued because the interview guide was being read from a laptop. The researcher thought he was going to be lynched when the respondent's husband angrily burst into the room but apparently the researcher was not the cause of his anger. Interviewing in the open meant that the researcher had to contend with many distractions which interrupted and affected the pace of the interviews. To minimise such risks, as far as possible, the researcher tried to avoid interviewing at night and in a setting that could create the impression of an amorous meeting.

#### *5.2.10.2 Rumour-Mongering*

The community was always rife with rumours about the true motive for interviewing service users. Initially, the service users believed that the researcher worked for SAT and that he had come from their headquarters to talk to them. Later rumours went out that the researcher had come to talk to them in order to offer them a new microfinance intervention. Finally, NWEP service users were of the opinion that they had to be interviewed in order to be granted a loan. These rumours had the potential to influence and distort responses from the service users. In all these situations, the researcher got to know fairly early because of his insider status. The researcher talked to their leaders who the service users respected and trusted. They in turn talked to their members to dispel such rumours. Before each interview, it was essential that the reason for the study be reiterated.

#### *5.2.10.3 Being an Insider*

The researcher refers to himself as an insider because he spent about 10 years of his life in the community and often visited as well. An insider in the context of this study refers to a researcher who has 'natural access' to the setting as an active participant. Being an insider implies that the researcher lives or has lived in the setting and then employs the experiences, knowledge and access to empirical material for the research purpose (Alvesson, 2003). Insider researchers, by virtue of their insights from lived experience possess knowledge of the setting that can be both rich and complex. Knowledge of the local culture and customs and having established a prior relationship with respondents enables researchers to have unfettered access to participants.

Being an insider in the area of study was a deliberate action influenced by the interpretive approach: the deliberately researcher chose such a community for the study. The researcher status as an insider more than satisfies Twumasi's (2001) requirements of conducting a study in a rural area: the researcher must understand the language, at least to the rudimentary level and be acquainted with aspirations and worldview of the people. Being an insider living in the community made the researcher privy to important information about the microfinance schemes that would otherwise have escaped an outsider. For instance, it was through informal discussions that the researcher came to know that some service users who could not make use of all the loans gave out part of it to their relatives.

As an insider, the researcher was cognisant of the potential problems of being embedded in a setting. It is frequently perceived that insider research lacks intellectual rigour because of the researcher's personal stake and emotional investment in the setting (Anderson and Herr, 1999; Alvesson, 2003). Such research is considered as too close and therefore lacks distance and objectivity necessary for credible study. To mitigate this problem, Brannick and Coghlan (2007) recommend that researchers possess a reflexive awareness of the relationship between them and the object of the research. Methodological reflexivity that demands that researchers follow research procedure and protocols required by the various research traditions is one means of reducing the problems associated with insider research.

Insider researchers have been accused of being so embedded in the setting that they are unaware of issues that an outsider would notice. An anecdote that illustrates the insider's problem is the story of a farmer who had not realised the tropical forest was so noisy till it was brought to his attention by a friend who was in the forest for the first time. The farmer had apparently become accustomed to the cries of the birds, crickets and other animals in the forest.

Consequently, the researcher tried to observe respondents and the community through the eyes of an outsider. The researcher had the advantage of having lived outside of the community for long period of time and therefore could also observe the community through the viewpoint of an outsider as well. The ability to observe phenomena from two different perspectives, which comes with intellectual self-training, enabled the researcher to assuage the problem of closely associated with the social phenomena being studied.

On the balance, however, the advantages that accrued to the researcher for being an insider outweighed that of being an outsider, especially considering that the issue of context was pivotal to the study. Knowledge of the language of the area of study meant that the researcher prepared and translated the interview guide and questionnaire by himself. Thus the researcher was able to ensure much control over the data collection process by reducing the involvement of assistants in the crucial stages of the data collection process.

### 5.2.11 Ethical Issues

Ethical considerations are important because social research, especially when it involves fieldwork, almost always intrudes into respondents' private lives when they disclose to researchers private and personal information that they will want to keep confidential. The act of researching people's lives and putting such information in the public domain also raises ethical issues. Ethics concerns the moral deliberation, choice and accountability on the part of researchers throughout the research process (Edwards and Mauthner, 2002). Researchers are enjoined to protect participants from harm or risk and work according to ethical guidelines and rules (Holloway, 1997). Ethics also means the researcher's own responsibility to protect himself by conducting the research safely and sensibly (Oliver, 1997). Ethical considerations are however determined by the discipline, the phenomena under study and the context of the study.

Before collection of data it is important to ensure that respondents give information willingly. Informed and voluntary consent implies that respondents are aware not only of the benefits of the research but also of the risks that they face. Asking for informed consent should not be accompanied by threats or inducements. Holloway (1997) acknowledges that qualitative researchers have an inherent problem with informed consent. In an interview, for example, surprising issues arise which might lead the process to unanticipated directions. Informed consent must be observed throughout the interaction process, particularly in the face of unexpected happenings. Researchers need to stress the fact that respondents can withdraw at any stage.

During interviews and questionnaire administration in Nsoatre special efforts were made to ensure that respondents willingly gave out information. The high level of illiteracy among service users meant that verbal approval was the appropriate means of seeking informed consent. It was emphasised that they could quit the interviews anytime they wanted and that they had the right to refuse to answer any question. However, cultural factors can influence this interaction process. For example in the area of study it is considered rude to refuse to answer a question, especially when there is unequal power relation between the interviewer and the interviewee. The researcher therefore relied on cues from the respondent to assess when service users felt uncomfortable in responding to some questions. If respondents hesitated in answering any question it alerted the interviewer who will then further probe if the respondent did not really mind answering the question. Since it is quite difficult to ascertain what information will be derived from a qualitative interview, the researcher, after the interview ascertained whether the respondent was willing to permit the information collected to be used in the study. Respondents were generally willing and enthusiastic to have contributed to the study.

Confidentiality and anonymity of respondents is essential to ethical research practice (Crow and Wiles, 2009). Researchers need to inform respondents regarding who the information will be disclosed to and how it will be stored to prevent unauthorised access. It also involves how much of the data is disclosed to the public. The respondent must be informed about all these and consent obtained before data is collected. Sometimes this is not feasible or possible so researchers promise respondents anonymity. This implies that respondents cannot be identified in the publication and dissemination of research work. Holloway (1997) suggests measures for ensuring anonymity: use of pseudonyms that have no resemblance to the real name; names are not linked to data (names are kept separate); specific locations should not be mentioned and; researchers cannot be identified by age, gender, ethnic group to mention a few. Issues of anonymity depend on the type of study and the respondents involved.

This study was assessed to be high risk with regard to the potential harm it could cause respondents because service users could be victimised by the microfinance institutions if they revealed they had contravened the regulations of the interventions. For example, the microfinance institution could identify service users who used their loans for non-business purposes and punish them. The researcher found that in the rural area it was easy to identify a service user even by her occupation alone. Every effort was therefore expended to ensure the anonymity of service users. Pseudonyms were used throughout the thesis and any variable, set of variables or description that could potentially lead to the identification of a service user were avoided. Respondents were informed that only the researcher would have access to the raw data they provided. This issue limited the analysis because it was difficult to present rich descriptive information.

## *5.3 Data Preparation and Analytical Techniques*

Data preparation for analysis is a crucial stage in the research process. Errors committed during this stage are difficult to detect and can potentially render results of analysis inaccurate. With quantitative data, the stage where data is transferred into a statistical package is where things are likely to go wrong. The analytical techniques employed on the qualitative and quantitative data are described and justified in this section. Here emphasis was on the analytical technique that best fits the data.

### 5.3.1 Preparation of Data

Qualitative and quantitative data had to be prepared for analysis. Qualitative data which was collected first was analysed first. The data was translated and transcribed at the same time. This was a particularly slow and tedious task but it was important to pay painstaking attention to ensure that the transcripts reflected what the interviewees intended to convey. After this process the researcher listened to the interviews and compared them to the transcripts to ascertain that any mistakes and omissions had occurred were identified and rectified.

Concerning the quantitative data the first task was to check the data for inconsistent responses and also examine questionnaire for mistakes, omissions and multiple choices. As a result of the meticulous scrutiny some anomalies were found and the questionnaire sent back to the most experienced of the research assistants who sought out the respondents and the necessary corrections were done. The sample size was small so every effort was made to ensure partial non-response was avoided. If some questions were found to have been unanswered, all efforts were expended to have them completed. After this exercise the questionnaires was fully complete without any unanswered questions.

The questionnaire was then entered into an SPSS spreadsheet. Before that open-ended questions were coded and categorised. The variables entered were double-checked to ensure that all data had been correctly entered. Preliminary cross-tabular and multiple regression analyses were carried out to determine the appropriateness of the variables and its categories for analysis. Variables and categories that were found unsuitable for analysis were readjusted. For instance, where the cells in the cross-tabular analysis showed very few[43] or no cases, categories of such variables were carefully combined to make them suitable for analysis. For example, the variable 'marital status', as a six-category variable, (single, divorced, married etc) was collapsed into two categories (married and single) for ordinal logistic regression analysis.

### 5.3.2 Data Analysis

This section discusses and justifies the analytical techniques used to organise the qualitative data and analyse the quantitative information put into SPSS. The analytic

[43] The rule of thumb is that the minimum expected cell frequency should be at least five for any meaningful analysis (Pallant, 2001)

strategies used in this study were primarily informed by what best fit the data rather than a technique chosen beforehand.

The analysis of the qualitative data was guided by three stages of Connolly's (2003) qualitative data analysis. The three stages employed in the study were: the generative phase; interpretive phase; and the theorising phase. At the generative stage the qualitative data was coded into themes and sub-themes based on the sub-questions under the main research questions. At this stage the information that was insignificant or irrelevant was discarded. The researcher was however alert to any new themes that emerged and did not fall under any of the sub-research questions. It was at the interpretive stage that the data was reduced. The patterns between the themes and the sub-themes were determined and brought together. The theorising stage was conducted in conjunction with the quantitative data.

The quantitative data was first analysed using descriptive statistics, specifically frequencies and cross-tabulations. The results of this analysis are presented in Appendix 1 and 2. In this section the socio-demographic and business characteristics of service users were discussed. Cross-tabulations were employed to assess the effect of all variables in the study on households and businesses of service users. Cross-tabular analysis was carried out between the socio-demographic and predictor variables on one hand and the two composite indicators: business and household outcomes (see section 5.3.3 for more composite dependent variables). The results and accompanying discussions are presented in Appendix 2. The study used chi-square tests in assessing the relationships between the variables and those that were found to be statistically significant were flagged. As previously stated, cross-tabulations were useful because they enabled separate analysis to be performed for each of the two interventions. It also served as a guide on which variables to include in the ordinal logistic regression.

Third, ordinal logistic regression was employed to assess the effect of the microfinance components on households and businesses of service users. Ordinal logistic regression was selected for this study because the composite dependent variables were ordinal (see questionnaire sample in Appendix 8). Even though other statistical methods, such as multinomial logistic regression could have been used, the inherent order or ranking of the dependent variable will have been lost (Borooah. 2002; Norusis, 2010). Ordinal logistic regression results in more accurate and valid results because it employs procedures designed to fit the inherent ordered characteristic of the data. Other reasons in favour of employing multiple regression approach were that it has been argued that in the social world seldom does a single variable adequately explain a social phenomenon. Logistic regression enables a researcher to predict relationships between a dependent variable and multiple predictor variables to provide greater insights and improved understanding of complex social reality. Multiple regression analytical techniques such as ordinal logistic regression permits the control of the effects of variables that the researcher is not interested in but confounds the study. This enables the researcher to assess the unique effect of the predictor variables on the dependent variable.

Ordinal logistic regression also known as PLUM[44] is an extension of the binary logistic model to handle ordinal response variables. In explaining the specifications of

[44] PLUM stands for PoLytomous Universal Model

the ordinal model much of what is presented here is borrowed from Norusis (2010). While binary logistic regression model estimates a set of regression coefficient that predict the probability of an outcome of interest such as the parameters set below

$$\text{In}\left[\text{prob(event)}/(1 - \text{prob(event)})\right] = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots.\ \beta_k X_k$$

The left side of the equation before the equal sign is called the logit and it is the log of the odds of an event occurring. In other words, the odds of an event occurring is, for example, the ratio of the number of people subject to an event to the number of people who are not subject to an event. The ordinal logistic modifies the binary logistic to include the ordinal nature of the dependent variable. With PLUM, instead of assessing the probability of an individual event occurring models, it considers the probability of that event occurring and all events that are ordered before it. This is known as cumulative probability. In the case of a three-category ordinal variable this how the ordinal logistic models the odds (θ):

$$\theta_1 = \text{prob(score of 1)} \;/\; \text{prob(score greater than 1)}$$
$$\theta_2 = \text{prob(score of 1 or 2)} \;/\; \text{prob(score greater than 2)}$$
$$\theta_3 = \text{prob(score of 1, 2, or 3)} \;/\; \text{prob(score greater than 3)}$$

The last category has no odds because the probability of scoring up to and including the last score is 1.

All odds of the response category *j* are in the form:

$$\frac{P(y \leq j)}{P(y > j)}$$

Where *y* denotes the ordinal response variable.

For a single independent variable the ordinal logistic regression is modelled thus:

$$\text{Ln}(\theta j) = \alpha_j - \beta_x$$

Where categories *j* goes from 1 to the number of categories less 1

Norusis (2010) says the negative sign in the above equation is not a mistake. It is used so that the larger coefficients show an association with larger scores.

Logistic regression has some other important advantages. It permits the prediction of discrete outcomes from a set of variables, whether they are continuous, discrete, dichotomous, or a mix (Tabachnick & Fidel, 2001). An additional advantage of logistic regression is that it makes no assumptions about the predictor variables. The independent variables do not have to be normally distributed, linearly related or of equal variance within each group. In logistic regression the dependent variable has to be discrete but a continuous variable can be converted into a discrete one if necessary. Although continuous predictor variables are permitted, they can cause the cell probabilities tables to have a large number of cells. This can generate many cells with zero frequencies, especially when the sample size is small (Garson, 2008). It is also possible to add explicit interaction and power terms as predictor variables. Logistic regression applies maximum likelihood estimation after transforming the variables into logit (the natural log of the odds of the dependent category occurring). This statistical procedure estimates the probability of a certain event occurring. The data had to be first prepared for the quantitative analysis.

Ordinal logistic regression requires some data preparation before analysis could be conducted. The researcher had to assess the independent variables for multicollinearity. Logistic regression models are affected as multicollinearity increases among the independent variables. Multicollinearity is a statistical situation where there is high correlation among the independent variables. Tabachnick and Fidell, (2007) suggest that variables that are multicollinear contain redundant information and are therefore not all required in the same analysis. According to Menard (2001), the coefficients will be unbiased but the standard errors for the coefficients will tend to be large and present non-significant results. Beta coefficients tend to be unusually high as multicollinearity increased and as a rule unstandardised coefficients greater than two should be examined for collinearity (ibid). First, for each model, the researcher carried out a correlation matrix to determine the degree of correlation among the independent variables. For any two variables with correlation value of 0.8[45] and above, one variable was dropped out of the model after careful consideration of the theoretical implication of such action.

Preliminary analysis indicated that ordinal logistic precluded the separate analysis for each intervention because of the smallness of the sample sizes. The samples of the two interventions were combined for the ordinal logistic regression analysis. It was necessary to ensure that in combining the two sample sizes from the two interventions they were equally represented (SAT and NWEP had sample sizes of 40 and 60 respectively). The study therefore employed weights[46] to correct for the unequal sample sizes. Each respondent of NWEP was adjusted with a weight of 1.5 to bring the sample equal to that of SAT. The rationale for this procedure was to prevent the bigger proportion of cases of SAT from swamping that of NWEP in the regression analysis and thereby ensure that the results reflected an equal representation of the two interventions in the analysis.

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[45] For further information on dealing with multicollinearity, see *web.as.uky.edu/statistics/users/viele/sta671u08/multicol.ppt*

[46] For more on weighting visit http://www.spsstools.net/Tutorials/WEIGHTING.pdf

### 5.3.3 Dependent Variables and their Aggregation

The dependent variables that measured the effect of the intervention on businesses and household were 14 in total (see Tables 7.2 and 7.3 in section 7.3 and 7.4). The dependent variables were selected based on interviews, observations, microfinance literature and on a SEEP manual[47]. The objective was to construct composite variables. A composite variable refers to a quantitative indicator created from a series of observed facts. Composite indicators summarise complex multi-dimensional realities and reduce the size of variables. They can however lead to problems if they are poorly constructed or misunderstood (OECD, 2008). In this study composite variables are appropriate because they were constructed with variables that measured various aspects of household and businesses of service users.

The dependent variables had the same number and description of categories and that facilitated their conversion into composite variables. Factors analysis should have been the most appropriate technique to construct the composite indicators but this did not prove feasible[48]. In constructing the composite indicators, the three categories of each of the dependent variables were assigned numbers and added up for respondent. Numbers attained by respondents formed a range and the range carefully divided into three categories which corresponded with the initial three categories of the individual dependent variables. After this exercise every respondent now had two variables that measured effect of interventions on households and businesses instead of 14 variables.

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[47] See Nelson, C. Et al. (2004). Learniing from Clients: Assessment Tools for Microfinance Practitioners. Washington D.C.: SEEP Network.

[48] Factors analysis did not work because some of the dependent variables were included as a measure of the outcomes based on the literature and not based on what the service users said were indications of successful poverty outcomes. For example ‘business expansion’ was added as a variable because the literature says microfinance should enable micro-enterprises to expand. With the initial trial with factor analysis some indicators will not load on the underlying indicators but the researcher wanted the variables as indicators.

However, one variable ‘contributed or increased contribution to education of children’ was not amenable to this procedure because this variable had one more category (‘not applicable’, which denote service users without children) than the other variables used in the construction of the composite variables. This variable was included in the cross-tabular analysis.

A model-building approach was employed in the multiple regression analysis. Models were constructed for each of the dependent composite indicators (business and household outcomes). First, a pair of models was built for each indicator with only the control variables. The control variables and the rationale for their inclusion are discussed in Appendix 3. The second pair of models was made up of the first model plus variables concerned with group matters. The third pair were constructed with model one and variables related to loans. The smallness of the sample size did not permit the splitting of the data file according to interventions. Results of the analysis are presented in six tables: Tables 3.1A to 3.6A in Appendix 3**.**

All the models satisfied the criteria for ordinal logistic regression; the models fitted well and test of parallel lines indicated that the proportional odds assumption, which the validity of the analysis depend on, was not violated. The results of the ordinal logistic analysis are discussed in Appendix 3. All variables in the models are discussed, both the statistically significant ones and otherwise. However for variables which were not significant only the direction of the relationship was discussed. In addition if non-significant relationships showed a trend or pattern this was explicated and discussed.

## 5.4 Conclusion

This chapter justified the need to undertake fieldwork and described the process. It was evident that data collection process required more than academic knowledge: it involved being able to ‘pull strings’; assess and anticipate situations; and being attuned with the culture and perspective of the people involved in the process. Being an insider made a very positive contribution to the data collection process. It is worth mentioning that some data collections strategies which the researcher intended to use had to change when faced with the realities in the field.

The study conducted some preliminary interviews which dwelt on understanding poverty in the context of the community. The preliminary interviews and the substantive interviews both informed the construction of the questionnaire in the field. This ensured that the questionnaire was sensitive to the context of the study. The study interviewed 26 people, including 3 dropouts and 4 staff of the intervention. For the quantitative aspect of the study, 100 service users were interviewed consisting of 60 and 40 service users of SAT and NWEP respectively. Throughout the process of fieldwork and data analysis, ensuring collection of valid and reliable data was a paramount concern. Efforts at ensuring the validity and reliability of data included; pretest of data collection instruments; the researcher conducting all qualitative interviews; training and supervising research assistants; cross-checking data in the field; and checking for inconsistencies in the data. The qualitative interviews were interpreted, transcribed, organised and incorporated into the analysis. For the quantitative data, frequencies distributions, cross-tabulations and ordinal logistic regression were employed in its analysis.

# CHAPTER VI

# MICROFINANCE PROCESSES: IMPLEMENTATION OF INTERVENTIONS FROM THE PERSPECTIVE OF SERVICE USERS

## *6.1: Introduction*

What is the nature of intervention designs and how are they implemented?' The chapter describes and analyses the salient features of intervention components as they have been implemented from the perspective of the service users. Contextual influences on the implementation process are also assessed. In all aspects of the implementation process, the chapter looks out for implementation gaps. This is the difference between what was to be done (implementation design) and what was actually done. What was supposed to be implemented comes from intervention manuals, documents and staff, and what was actually done came from service users and observation. The study assesses the interventions from the perspective of service users and pays particular attention to the livelihood of service users and the environmental and cultural context of the area of study. Lastly the chapter assesses the implications of the empirical findings for the existing literature on microfinance.

## 6.2 To What Extent are Contextual Factors and Perceptions of Service Users taken into Account in the Design of Microfinance Interventions and what are the Implications?

The involvement of service users in the context of this study implies the extraction of local knowledge for the creation of an intervention intended to change their lives (Jennings, 2000). The rationale for assessing the involvement of service users in microfinance interventions is based on the argument that in developing countries microfinance is primarily perceived as a development intervention. It has been argued that microfinance institutions were established in developing countries with the objective of reducing poverty rather than for profit-making (Harper, 1998; ADB, 2000; McKernan, 2002; Muhumuza, 2007**)**. Ledgerwood (1999; 1) adds that ‘microfinance is not simply banking, it is a development tool’. Indeed both interventions stated poverty reduction as their major objective. As a development intervention therefore, there is the need for the involvement of all stakeholders, especially users of development interventions, in all stages in of the process (Oakley et. al., 1991; Pretty, 1995; Chambers, 1997; McLeod, MacDonell and Doolin, 2007). Involving service users increases the likelihood that interventions will be context–specific and meet the requirements of the service users.

The study recounts the introduction of the interventions to the area of study to ascertain whether the inputs of service users were sought in the design of the interventions. The pioneer service users claimed SAT staff came to Nsoatre from Sunyani on a membership drive in 1995. Service users did not recall any questions or interviews concerning what they preferred in the intervention. When asked whether service users were represented in the design and implementation of the intervention, a staff of SAT replied ‘No, when we have designed it and we explained it to them and they accept it we give them the loans’. The staff however indicated that the intervention in Nsoatre was different from that of the nearby villages in that repayments were made every two weeks while it was weekly for all the other villages. The staff were however unable to explain the rational for the variation.

Regarding NWEP, the parent financial institution, Nsoatre Rural Bank, is located in the area of study, Nsoatre. According to a staff member of the NWEP, they got the leaders of the community to introduce the intervention to the people. To the question whether there were any variations in NWEP to reflect the characteristics of the people and the conditions in the area where the intervention was being introduced, a NWEP member of staff replied ‘No please, it is uniform everywhere’.

This is what some service users had to say regarding whether they were involved in the formulation and implementation of the interventions:

> No, they (SAT) did not ask our views about how the programme should be done. All they did was to inform us that anyone who wanted to join to write down their names with Teacher Boakye. We did not know anything about how they operated. They told us we will get loans for our business (Yaa Tawiah, SAT).

> The people came and asked us to form groups. We did not know how much money or how we will repay the loans. It was during the training period that we got to know about how the programme operates (Naomi Twum, NWEP)

In sum both interventions were introduced into the community already designed and ready to be implemented. Microfinance institutions are noted for their exclusion of users from the design and implementation of their interventions (Pitamber, 2003).

Staff members of the two interventions were unable to explain the rationale for the design and implementation of the intervention when asked. For example, the reason for the choice of weekly or fortnightly repayment interval with a total payment period of 16 weeks could not be explained. The uncritical replication of microfinance interventions models developed elsewhere has been observed in many developing countries (Johnson and Rogaly, 1997; Burkett, 2007).

Why are service users' inputs missing in microfinance interventions? Perhaps the lack of user input into microfinance interventions is due to the perception that microfinance (perhaps as a banking institution?) is too complex to involve its users who are usually poor and non-literate. Cornwall and Gaventa (2000), opine that increasing emphasis on neo-liberalism and institutional sustainability implies that if there is any participation of the people in the microfinance intervention at all it is to ensure the efficient delivery of services rather than permitting the people to have power and influence over the intervention. Two responses from staff of the interventions buttress the above assertion. A staff member of NWEP interviewed stated that uniformity in the intervention across different localities ensured efficiency. As to why interventions did not reflect the characteristics of an area, a SAT manger in an interview said that their activities had to be structured to conform to the financial management software programme instead of the other way round. From the field and the literature, it is clear that institutional microfinance as a development intervention generally reflects a top-down approach.

What were the implications of the non-involvement of service users or the context of the area of study? The lack of consultation with service users probably resulted in assumptions that did not reflect reality. For example it was assumed that loans would be routinely used for business purposes only and repayment will be made from proceeds from profits from businesses. The modes of operation of the two interventions as analysed later in the chapter suggest that there was some mismatch between the intervention activities and economic opportunities and conditions in the area of study. For instance, loan disbursement and repayment patterns did not reflect seasonal economic fluctuations and market conditions of the area of study and therefore service users were unable to take optimum advantage of economic opportunities. Kaplan and Mullainathan (2000) have documented how mismatch between loan repayment and incomes can result in grave consequences for the ability of microfinance service users to alleviate their level of poverty.

In sum results of this study suggest that non-participation of the service users in the design of the microfinance interventions resulted in the inability of microfinance practitioners to tailor interventions to the environment and requirements of service users. This ultimately detracts from the effectiveness of microfinance interventions as an important poverty reduction tool. Strong theoretical and practical arguments have been made in many studies for the involvement of the users of interventions. Schneider (1997), states that for microfinance interventions to be sensitive to the priorities, constraints and potentials of service users, they should be based on the understanding of the local people and their environment. Microfinance in rural areas seems to call for flexibility in design and implementation of the intervention. Hickson (2000) has highlighted the importance that service users attach to flexibility in microfinance services and rightly observed that microfinance institutions usually fail to appreciate the extent to which service users seek flexibility.

## *6.3 How are Group Activities Organised in NWEP and SAT?*

Groups and group liability constitute the backbone of microfinance. Although other non-group schemes exist, the overwhelming majority of microfinance interventions are group-based. This section analyses how the group activities are organised in the two interventions including service users' participation and perception of these activities.

### 6.3.1 Group Formation

Asked about how they formed their Trust Banks, SAT service users stated that anyone who was interested and met the selection criteria of the intervention wrote down their names on a list which became a group once the required group size was attained. In spite of widespread insistence in self-formation of groups (Ghatak, 1999, 2000; Armendariz de Aghion and Morduch 2005) such methods of constituting microfinance groups are not unknown. For instance, Karlan (2003) found a similar method of group formation being employed by FINCA[49] in Ayacucho in Peru. Staff of SAT corroborated the above information and added that such a group-formation strategy was to ensure that each Trust Bank consisted of members of different occupations and socio-economic status. SAT staff further explained that the idea was to prevent covariate risk and ensure that the less poor assisted the poorer ones during periods of repayment difficulties. The idea received confirmation in a study in Bolivia where Mosley (1996) found that there was much higher likelihood that group members assisted their peers when the socio-economic profile of the group was more heterogeneous. It was obvious that the non-self-formation of groups was to achieve

[49] FINCA means Foundation for International Community Assistance

the financial sustainability objective of the microfinance scheme. Regarding the issue of implementation gap, even though SAT's documents (see section 4.6.2.2) said Trust Banks were organised into sub-groups of between 5 and 7 members, interviews with service users and the researcher's investigations showed that there were no such sub-groups in any of the Trust Banks.

Staff interviews revealed that SAT did not specifically target the poor. However, the smallness of the initial loans, the relatively high interest rates and the idea of attending regular compulsory meetings in public places with poorer members precluded wealthier entrepreneurs from joining the intervention. This indirect way of excluding the non-poor has been documented by Hulme and Mosley (1996) and Johnson and Rogaly, (1997).

SAT's status as a Christian organisation influenced its member selection process. SAT endorses the biblical notion of patriarchy and therefore required married women to seek permission from their spouses before they could join the scheme. During the initial membership drive many people dropped out of the intervention as a result of not being granted permission by their husbands. This is what an interviewee said concerning the requirement that women asked permission before they joined the scheme:

> When we filled the form they asked us if we were married. Those who were married were asked to tell their husbands before they took the loans. Some people reported that their husbands wouldn't allow them to take the loans, so they were dropped. Adwoa Benewaah, SAT.

In NWEP the solidarity groups were formed through self-selection. NWEP's emphasis on self-selection is exemplified by these statements:

> What happens is that those of us who are close and know ourselves come together. This was done so that those of us who are in a group should understand ourselves. Adwoa Yeboaa, NWEP.

> We heard that there was such a scheme (NWEP) and we were made to understand that if we come together we were going to have access to loans. So if I knew someone who is serious and trustworthy, and can help work out such a group I could call her. So that was what we did and formed the group. Yaa Mansa, NWEP.

Interviewees stated that NWEP organised people into solidarity groups of between 4 to 6 women. NWEP staff combined five or six of the solidarity groups to form a Credit and Savings Association (CSA). Solidarity groups were formed on the basis of proximity and/or occupational homogeneity. For instance an interviewee[50] remarked "the four of us who formed the group are 'banku[51]' sellers." These solidarity groups within the CSA were primarily responsible for monitoring and ensuring compliance with repayment schedules. NWEP had a two-tier joint liability structure. The solidarity group were the first group to make good any loan defaults. If the solidarity group failed to repay the problem fell on the CSA. Interviewees had observed that the CSAs were gradually taking over the functions of the solidarity groups especially the risk of default. An interviewee complained about increasing ineffectiveness of the solidarity groups;

> A situation we have is that the smaller group [solidarity group] is supposed to share and pay for its members in the case of loan default. This arrangement is not working because none of the members of the solidarity members are willing to pay in case of default. The debt then goes to the larger group [CSA]. The solidarity group is not effective as it should be. Yaa Aso, NWEP.

Just like SAT, NWEP did not screen service users to ensure that non-poor entrepreneurs did not participate in the intervention. Again as in the case of SAT, investigations revealed that the smallness of the initial loans and the unwillingness of the non-poor to associate with the poorer people helped to ensure that loans generally went to the targeted population- the entrepreneurial poor.

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[50] Adwoa Yeboaa
[51] A popular Ghanaian meal prepared with maize flour

Although Ghatak (2000) argues that the issue of joint liability induces group members to self-select, empirical evidence from the field indicates potential service users may not have any influence in how their groups are formed. In the case of SAT, the group formation strategy was part of an already-packaged intervention over which service users had no influence. It can be argued that in NWEP the practice of combining solidarity groups together to form a CSA defeats the idea of constituting groups on the basis of self-selection, especially when the choice of which solidarity groups to put together to constitute a CSA was taken solely by the microfinance staff. This is significant given that CSAs were increasingly taking over the functions of the solidarity groups.

### 6.3.2 Peer Monitoring and Pressure

After groups are formed they are then provided with financial services, the most notable being loans using the joint liability strategy. How do groups ensure that loans are repaid so that they enjoy continued access to microfinance services? The study assessed the extent to which peer monitoring is used as a strategy to ensure loan repayment. Peer monitoring refers to the ways through which that group members observe their peers to ensure that loans will be repaid. Peer monitoring is supposed to mitigate the problems of ex-ante and ex-post moral hazard[52]. In NWEP the solidarity groups were supposed to undertake the peer monitoring task, while in SAT in the absence of the sub-groups, members of the Trust Banks were to be responsible for monitoring their peers. During interviews staff field staff of SAT and NWEP stated

[52] Ex-ante moral hazard denotes the risk of not using loans for designated purpose that compromises the ability to repay loan. Ex-post refers to the risk that service users after investing loans and making profit will refuse to repay the loan.

that the intervention expected members to perform the peer monitoring task and even claimed they performed the task of monitoring loan use as well.

Effective peer monitoring presupposes that members are knowledgeable of how their peers use their loans. Quantitative analysis indicates that the majority of service users did not know how their peers used their loans. From Table 6.1 below, 55% and 60% of SAT and NWEP service users respectively indicated they could not tell how other group members used their credit. It is difficult to ascertain how effective monitoring could be if the majority in both SAT and NWEP reported they did not know how their colleagues used their loans. Few interviewees claimed to have intimate knowledge of how their peers used their loans. What accounts for the low level of knowledge of how members used their loans in a rural area characterised by a high level of interaction among people?

**Table 6.1: Knowledge of other Members' Use of Funds**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| **SAT** | Valid | yes | 27 | 45.0 | 45.0 | 45.0 |
| | | No | 33 | 55.0 | 55.0 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| **NWEP** | Valid | yes | 16 | 40.0 | 40.0 | 40.0 |
| | | No | 24 | 60.0 | 60.0 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

How service users employed their loans could explain why there was a low level of knowledge on loan use by peers. From Table 6.2, the study found that 51.7% and 67.5% of SAT and NWEP service users respectively claimed they consistently used part or all of their loans for other purposes in spite of the fact that the microfinance institutions forbade the use of loans for any other purpose except for income-generating activities. There is some suspicion that percentages of service users who claimed to use their loans for other purposes could be higher because stating that loans were not used for income-generating activities meant admitting to having contravened the regulations of the interventions.

**Table 6.2: Did You Use Loan for Other Purposes?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 31 | 51.7 | 51.7 | 51.7 |
| | | no | 29 | 48.3 | 48.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 27 | 67.5 | 67.5 | 67.5 |
| | | no | 13 | 32.5 | 32.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

It was therefore obvious that peer monitoring was of very little value in an environment where most service users declared they used loans for non-business purposes. Reasons for the difficulty of using loans for only business purposes are expatiated in section 6.4.3. Additionally, although field staff of the microfinance institutions claimed they also monitored loan use, the fact that none of the service users had been penalised for doing that by the staff of the institutions meant staff monitoring was quite ineffective or they were not interested in how loans were used as long as they were repaid. Microfinance field officers did not monitor or were not interested in monitoring loan use because the performance assessment of field officers did not include monitoring loan use among service users. The activities of field officers did not seem to be supervised[53].

Studies that have examined the issue of peer monitoring (Stiglitz, 1990; Ghatak and Guinnane, 1999; Amendariz de Aghion, 2005) have emphasised its role in reducing

[53] During the five-month fieldwork period the researcher did not observe any supervisory activities of the activities of field staff of the two interventions.

the problem of moral hazard. However these studies were not based on empirical observations and also premised on the assumption that loans had to be invested in income-generating activities in order to ensure that the loan can be repayable. In a study in Peru, Marr (2002) found that more than half of service users had not undertaken any peer monitoring and of those who had none had undertaken monitoring not more than 50%. Marr (2002) attributed the low level of peer monitoring to the high cost of monitoring; the fact that close relatives formed groups and had the least interest to undertake monitoring; and the intimidation, abuse and even threats faced by those who divulged information acquired through peer monitoring. While Marr argued that peer monitoring was important for maintaining high repayment rates, this study found that peer monitoring had little influence on repayment rates because the majority of service users used their loans for non-business purposes.

How did groups ensure that loans were repaid? In forming a group through self-selection, such as done in NWEP, the most important criteria for selection into a group to ensure loan repayment was the virtue of being trustworthy and noted for being reliable in honouring one's debts, not where or how loans were likely to be invested. This is what a service user said on group formation:

> We look for someone who is not difficult when it comes to debt repayment. Someone who is will not give us problems when the time comes for repaying the loans. We seek for someone with a good character. Mary Adu, NWEP.

The strategy of selecting members for their trustworthiness and tenacity to repay debts backed by intense peer pressure was quite an effective strategy to induce repayment especially in a rural area. The same was true for service users of SAT; emphasis was placed on one’s tenacity to ensure that loans were repaid rather on how loans were employed. Good repayment character was important because service users did not only rely on proceeds from their businesses to repay their loans: they sometimes borrowed; sought assistance from relatives and friends; from other group members; or even mortgaged or sold their assets (for more on loan repayment see section 6.4.4).

Marr (2002) found that where peer monitoring was weak peer pressure was very strong. Similar findings were observed in SAT and NWEP. In the absence of peer monitoring, peer pressure and threat of sanctions became very important additional strategies to ensure loan repayment. Indeed interviewees in the two interventions talked about how they dreaded the extent of peer pressure and sanctions brought to bear on them in case of repayment difficulties. It included ostracization, verbal abuse, and even threats of violence. This was particularly effective in a rural community where people usually have close interaction with each other. This finding also reflects Besley and Coates’ (1995) assertion that in a rural setting with high level of social cohesion, peer pressure constitutes a strong instrument for enforcing repayment. It is noteworthy that through observation and interviews, peer pressure was at its zenith if loan defaults impeded the commencement of a new cycle. This is an indication that peer pressure was applied not just to repay loans but more importantly to enable continued access to microfinance loans.

### 6.3.3 Peer Support

Peer support refers to how group members assist each other with loan repayments and in other issues such as their welfare. With regard to the issue of joint liability, service users in both interventions continually used this statement in interviews: ‘*obi case ye* *me case*' literally meaning, 'someone's problem is my problem'. There was high awareness of the concept of joint liability including its ramifications. There were many informal arrangements that groups members employed to ensure loan repayment. It was not uncommon to see members asking for money from members of their groups to make up the repayment sum. With SAT, some interviewees mentioned the invaluable assistance of some members with regard to helping them to meet repayment schedules. This is what a member of a group in SAT said:

> When we are unable to make enough money within the two weeks to make the repayment Yaa Benewaah (a leader of a group) makes up the difference which we later pay back to her. Victoria Ntim, SAT.

Many of the interviewees of SAT confirmed that leaders of the Trust Banks, especially those in charge of collecting repayments, usually topped up the groups' total amount due and later retrieved monies from defaulting members. The researcher observed that those in charge of collecting repayments (usually the secretaries) were literate and relatively better-off than the other members. They were therefore in a position to assist their peers in loan repayment. Thus the essence of SAT forming groups in a manner that ensured that the better-off will support the poorer service users seems quite effective.

As already discussed, NWEP had two tiers of peer support: at the solidarity level and Credit and Savings Association (CSA) level. If a member had any repayment problems, the solidarity group was the first to attempt to resolve the issue. If the solidarity group was unable to make up the required repayment sum then the CSA took up the issue. Some service users observed the CSAs were in recent times increasingly taking over the duties of solidarity groups which were failing to carry out their functions. The two tier peer support system did not seem sustainable because once a solidarity group brought its problem of loan default to the CSA then the burden of joint liability becomes lighter for that solidarity group. This was because the loan in default was now shared by a larger number of service users (all members of the CSA) and therefore members of the solidarity group in question pay less. Once that happens every other solidarity group is likely to do the same, thus shifting the issue of joint liability from the solidarity group to the CSAs.

In both NWEP and SAT some interviewees expressed disquiet for being jointly liable for bigger loans taken by their peers. They objected to the arrangement whereby they had taken smaller loans but were jointly for larger loans taken by their peers. Service users in SAT were more vociferous on this issue than NWEP. The probable cause of this was the greater heterogeneity with regard to loan size in groups as a result of SAT's disregard for self-selection during group formation (see Table 6.7 for loan distribution). The microfinance literature is generally silent on this issue and its possible effect on group solidarity and performance.

Peer support within both interventions was not limited to issues of loan repayment. The study found that financial relationships among group members were embedded in social relationships. When group members encountered calamities such as death of spouse, other group members contributed to pay off the loan of the affected person and even provided further financial support. Group members attended funeral celebrations and other social ceremonies of their peers. A SAT member recounted how other members of her group paid the remainder of the loan of their peer whose husband had died and further supported her financially. SAT and NWEP members agreed that social interaction such as participation in funerals of bereaved members and naming ceremonies seem to increase solidarity within the groups.

SAT and NWEP encouraged these social interactions among members. According to SAT service users, the constitution for members included a clause that called on members to offer support to each other during social events, disasters and emergencies. What seem to differentiate this support from the normal rural social support system was that these groups ensured that they were identified as a microfinance group. To support users, NWEP had created a group account for the CSAs from which members, with the consent of other members of the group and staff of the intervention, could borrow from if they were faced with an emergency or crisis situation. The impression from interviews suggests that access to the fund was quite difficult and that few service users had ever benefited from it. The difficulty with accessing these funds was because staff of the intervention rarely permitted service users to withdraw the funds. A few interviewees of SAT and NWEP suggested that groups needed to get involved in other joint commercial projects in order to generate income and by so doing increase solidarity and cohesion among group members.

In sum, interviews and observations suggest that the joint liability concept was well accepted by service users of the two interventions, except for the problem of being jointly liable for loans of different sizes. Many studies have criticised microfinance groups for being formed solely for accessing microfinance services. It is argued that groups generate social capital and become more cohesive if they engage in collective activities beyond microfinance (Armendariz de Aghion and Morduch, 2005). With some measure of success, the two institutions had been able to extend group activities beyond involvement in microfinance activities. Observations and interactions with some service users during meetings showed some degree of friendship and intimacy among service users. However, it was not clear whether these relationships were a manifestation of normal rural interaction or relationships that flowered after the establishment of the interventions.

### 6.3.4 Group Independence and Relationship with Staff

The ability of groups to make independent and informed decisions without undue interference from intervention staff is paramount for the sustainability of the groups. The study assessed groups' ability to make their own decisions in their group and their relationship with staff of the interventions.

Service users of the two interventions enjoyed a high degree of autonomy with regard to the running of activities of their groups. Asked whether staff of the interventions could take decisions concerning management of groups without consulting members of the group, service users unanimously answered in the negative. Interviewees of both interventions stated that, for instance, the loans officers had to consult group members if, for example, they wanted someone included in group. To the question whether the loan officer could unilaterally expel someone from a group, Adwoa Yeboaa of NWEP answered 'it could never happen'. It is only the group members themselves who can do that.' Service users possessed awareness of their rights and generally exercised them without fear or favour.

Even though groups were found to enjoy autonomy, there were certain situations where field officers of the intervention intervened albeit surreptitiously. This was especially evident when field officers believed there was a potential situation for loan default. It became apparent during interviews of service users and staff of the interventions in SAT that field officers could unilaterally expel or reduce loans of service users who were deemed risky borrowers when the group was reluctant to take action. Staff of the microfinance institution would act surreptitiously to avert loss to the institution. This was done in order not to be seen as usurping the autonomy of the groups. During interviews there were some complaints of this nature. Some service users complained concerning how the 'computer[54]' had reduced or deleted their names from the list of loan recipients. Gloria Owusu (SAT) commented: 'when the list (loan recipients) comes from the Head Office and the computer has deleted one's name, there is nothing anyone can do about it in that case.' Another interviewer (a dropout) claimed she was informed by the loans officer that the computer had deleted her name and there was nothing anyone could do about it. Apparently she had encountered repayment problems with the last loan she took and that might have been the reason why the 'computer' deleted her name. Service users usually accepted without question when told about what the 'computer' had done. Staff of SAT intervention's surreptitious activities to deal with potential and actual repayment problems speaks volumes of the high regard for service users in a society characterised by officialdom's disregard for the rights of the poor.

While groups in the interventions enjoyed some level of independence, it can be argued that the level of supervision was important for the functioning of groups. For instance with regard to the meeting day for SAT groups (for more on group meeting

[54] Apparently staff attributed their surreptitious actions to the computer in the office of the microfinance institution. This was to prevent friction and animosity among group members and between the affected person and the microfinance institution.

see section 6.7.3), the choice of Friday by service users was clearly not a prudent decision and the situation would have been different if the staff of the intervention had been involved. A problem that occurred in one of the groups of SAT highlights the need for some level of staff supervision in group activities. A SAT staff claimed that a male teacher in a small settlement about nine miles from Nsoatre reported that he had organised a group and therefore requested for loans for this group. Staff of SAT neither visited the settlement nor tried to ascertain the businesses of the members of the group. Members of the group travelled to Nsoatre to participate in all training activities and collected their first loans. However, after a month when the first repayment was due the leader of the group had not showed up to make payment. Upon visiting the settlement and interviewing the women, staff of SAT learnt that the women had no businesses but they had collected the loans on behalf of the leader!

Concerning the relationship with intervention staff, interviewees claimed they had good working relationships with loan officers and other staff of the two interventions.

> They don't disrespect us just because we come from a rural area, but rather they warmly welcome us when we go to the office in Sunyani. Whatever your problem they are always ready to listen to you and help. Gloria Owusu, SAT.

> Our relationship is very cordial. We cooperate with her and she cooperates with us. We share our problems with her and she does the same. Personally I don't have any problem with her. Victoria Ntim, SAT.

> We get on quite well with him. He is not bossy and listens to us. He treats us with respect. We don't want him to be transferred. Juliana Osei, NWEP.

Perhaps this section will not be complete without the discussion of the issue of corruption and abuse in the interventions. Instances of people having to pay money to staff of financial institutions before they could be granted loans are not uncommon in

Ghana. The study assessed whether service users had to give bribes in order to access financial services from the microfinance interventions. No interviewee reported any incident of corruption against staff of the two interventions. Service users of the two interventions stated that they voluntarily offered gifts to staff of the institution periodically.

In sum, the forgoing analysis showed that groups were formed based on the microfinance institutions' policy. None of the two interventions groups (CSAs and Trust Banks) were truly self-formed. Peer monitoring was found to be hardly used as a strategy of ensuring loan repayment because loans were routinely used for non-business purposes. Group formation, peer pressure and sanctions proved to be more effective methods of ensuring that loans were repaid. Although groups tended to be independent, the microfinance institutions apparently dictated the extent of independence groups enjoyed. However, staff members of the two interventions seem to have some respect for group autonomy within the limits permitted by the interventions. Such situations do not often prevail in relationships between two actors of unequal power relation in rural areas in Ghana. Service users in the two interventions had high awareness of the issue of joint liability but this was dampened to some extent by unequal loan sizes.

### *6.4 How are Loans Provided by Microfinance Interventions and in what Ways do Service Users Manage Them?*

Although microfinance is concerned with the provision of a variety of financial and non-financial service to the poor, the provision of loans constitute the core function of most microfinance interventions. Indeed the name ‘microcredit’ which denotes the provision of credit is used interchangeably with the term ‘microfinance’. This section assesses the disbursement, quantum, use and repayment of microfinance loans in the two microfinance interventions.

### 6.4.1 Loan Disbursement

In the two interventions new loans were supposed to be disbursed when the previous cycle has been completed successfully completed. However, NWEP had perennial problems with loan disbursement because its parent institution, NRB, had been experiencing liquidity problems for the past five years. NWEP service users interviewed indicated that instead of giving loans to all members at the same time, loans were granted to group members in turns. Below is a comment on the disbursement of loans by an interviewee:

> The problem has been the mode of payment. There is a situation whereby the money is disbursed in days and weeks to one member after another. So it takes time before we are all covered. Joyce Konadu, NWEP.

There seemed to be no particular period for disbursement of loans or funds: funds were disbursed when they became available. Table 6.3 shows information on responses to a question on the timeliness of loan disbursal. In the survey conducted 80% of NWEP members stated they did not receive their loans on schedule.

**Table 6.3: Did You Receive Loan on Schedule?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 36 | 60.0 | 60.0 | 60.0 |
| | | no | 24 | 40.0 | 40.0 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 8 | 20.0 | 20.0 | 20.0 |
| | | no | 32 | 80.0 | 80.0 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

Compared to NWEP service users, members of SAT were at an advantage with regard to promptness of loan disbursement. Some interviewees commented on how in previous times they received new loans the same day that they completed the previous cycle. However, loans could be delayed mainly because of the inability of other members of the group to complete their repayments on schedule. Likewise loans were delayed if the disbursement period fell between the 15th and the end of the month, a period SAT staff indicated was dedicated to office duties. In addition, loan disbursements had to be coordinated with eMerge[55]. With regard to receipt of loans on schedule 60% of SAT indicated that they received loans on schedule, while 40% said they did not (see Table 6.3).

As stated previously, loans could be disbursed at any time of the year in the two interventions. The study assessed on the average whether these loans were received at a convenient time (see Table 6.4). The rationale was to establish whether receipt of loans on schedule coincided with receipt of loans at a convenient time. In NWEP, however, service users were equally divided (50% each) as to whether they received loans at a convenient period. In SAT, 75% responded they received their loans at convenient periods while the remaining 25% answered in the negative. The forgoing discussion indicates that higher percentages of service users stated they received loans at a convenient (75%) time than on schedule (60%). This implies that although some loans were not received on schedule, they could still be at a period convenient for service users. This makes sense in a situation where service users could use loans for any purpose: it might not be convenient for business but it might for paying fees or any other non-business purpose. In a rural area receipt of loans at a convenient period

[55] The eMerge is an integrated software used for accounting, portfolio tracking, HR and payroll, and fixed assets management.

is important if service users are to take advantage of market opportunities. Below are excerpts of comments of those who did not receive loans at a convenient period:

> As for the time it (loans) comes, I am not happy about it because most of the time it comes at the lean season when people do not have money. They disburse it any time they want and it happens to be at the wrong time. Times like Christmas where you need the money most to trade it does not come. Yaa Owusuaa, SAT

> Since the second loan since was disbursed during the lean season, it affected our business negatively. The first one helped us since that one was disbursed at a good period. Afia Twumasiwaa, SAT dropout.

**Table 6.4: Did You Receive Loan at a Convenient Time?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 45 | 75.0 | 75.0 | 75.0 |
| | | no | 15 | 25.0 | 25.0 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 20 | 50.0 | 50.0 | 50.0 |
| | | no | 20 | 50.0 | 50.0 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

### 6.4.2 Quantum of Loan

The study received conflicting information on the initial amount of loan service users received in NWEP. Staff of NWEP stated that the initial loan amount a service user received depended on the amount of initial savings prior to the commencement of the first cycle. However, service users indicated that they were initially given the same amount with subsequent loans based on repayment performance. This is what a service user said:

> We were all given one million cedis (GHC 100) for the start. The explanation is because they do not know much about our finances they start with an amount we can all conveniently pay so they gave us the same amount. Joyce Konadu, NWEP.

SAT staff and service users agreed that initial loan sizes varied with circumstances of service user and were based on interviews and type of business. Like in NWEP, loan sizes in subsequent cycles depended on repayment performance.

For subsequent loans, both institutions employed the dynamic incentive strategy: increasing the amount of loan after each cycle. Loan increment after each cycle is usually used as a repayment incentive and perhaps to match the increasing financial requirements of service users over time (Johnson and Rogaly, 1997). Staff of the two institutions claimed they used the dynamic incentive strategy to enable service users expand their business and eventually graduate to mainstream banking. Service users of NWEP claimed their loans had not witnessed much increase due to the liquidity constraints encountered by Nsoatreman Rural Bank. Most service users of SAT, on the other hand, had experienced continuous loan increments.

Nevertheless, loan increment for service users was not a routine procedure. Group leaders and members in the two institutions could object to any loan increment if they thought it could result in repayment problems. Objections to increments were usually made against members who had previously experienced repayment problems. To avoid confrontation within the group, members/leaders will surreptitiously inform the loan officer of their concerns. Below is typical of what happened in both interventions before the start of a new cycle:

> In Sinapi Aba, as you pay you get the chance to increase the amount you borrow, but the group members can decide not to let you peg the amount any higher because you struggled to pay the last amount you borrowed. If we inform Sinapi office, they act on our behalf. Adwoa Benewaah, SAT.

Interviews with SAT service users showed that objection to loan increment occurred often. It was less much so in NWEP.  Although objections were usually surreptitious, it caused disaffection amongst members of both SAT and NWEP. Being a close-knit community with a strong communal spirit, affected members were annoyed that they did not receive loan increments while other group members did. A NWEP member, Yaa Mansa, declared she was so peeved for being treated that way that she had considered dropping out of the intervention. As stated previously, field officers could also influence the amount of loan service users could receive if they had reason to suspect that repayment difficulties could occur.

Some critics, for example, have argued that microfinance loans in rural communities in developing countries are so paltry that they can only be used for household consumption. In the study service users were generally satisfied with the size of their loans as far as their businesses were concerned[56]. However, service users indicated that their loan requirements fluctuated within the year. Given the seasonal nature of economic activities in the area of study this was expected. Table 6.5 below shows the most recent loans received by NWEP and SAT service users. On the average, loan sizes of SAT members were bigger than that of NWEP. Compared to 86.7% of SAT members who received over GH¢ 200, only 45% of NWEP members received above the same amount. The reasons for the differences in loan amounts between SAT and NWEP had to do with the financial crisis encountered by the Nsoatreman Rural Bank and the fact that NWEP had a substantial number of service users (17) in their first cycles compared to only one member for SAT. New members usually received smaller loans which increased with time with the dynamic incentive strategy.

[56] SAT service users expressed more satisfaction with loan size than NWEP.

**Table 6.5: Amount of Last Loan (in GH¢)**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | up to 100 | 1 | 1.7 | 1.7 | 1.7 |
| | | 101-200 | 7 | 11.7 | 11.7 | 13.3 |
| | | 201-300 | 18 | 30.0 | 30.0 | 43.3 |
| | | 301 and above | 34 | 56.7 | 56.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | up to 100 | 19 | 47.5 | 47.5 | 47.5 |
| | | 101-200 | 3 | 7.5 | 7.5 | 55.0 |
| | | 201-300 | 14 | 35.0 | 35.0 | 90.0 |
| | | 301 and above | 4 | 10.0 | 10.0 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

### 6.4.3 Loan Use

Microfinance loans are typically intended to be invested in income-generating activities (Ledgerwood, 1999, Amendariz de Aghion, 2005). Empirical evidence indicates microfinance loans are used for a myriad of purposes other than income-generating activities. SAT and NWEP staff claimed loans were designed expressly for income-generating activities and had therefore warned their members against using their loans for any other purpose. Again loan officers of the two interventions claimed to have the ability to monitor the use of loans but service users' interviews have shown this was quite impossible. The study asked service users if they consistently used part or all of their loans for purposes other than for business. Table 6.2 in section 6.3.2 demonstrates that the majority of service users in both SAT and NWEP indicated that they used their loans for purposes other than business. The percentage of SAT members who used their loans for other purposes was 51.7% while that of NWEP was 67.5%.

It is surprising that such a high percentage chose to ignore the injunctions of the microfinance interventions and indeed part of members' training was geared towards the successful application and management of money for business. It is worthy to note that the percentages cited above do not include service users who used their loans for non-business purposes on a one-time-off basis. In total the figures for non-business use of funds could be greater than that cited above.

From SAT and NWEP interviews most service users who used their loans for other purposes said they used the funds to pay school fees of their children and for housekeeping. Other interviewees stated that the loan was the only bulk amount they had access to and could use for projects that required large amounts of money such as building projects. A few service users of NWEP stated that they gave part of their loans to other family members for investment in income-generating activities. Interviews and informal interaction with service users pointed to the fact that microfinance loans were used for many other purposes than can be recounted here.

Information in the training manuals of the two microfinance institutions required service users to keep business finances separate from general household finance. The study assessed the extent to which service users heeded the advice of separating income-generating finances from general household finances. Table 6.6 below reveals that in the two institutions over half (SAT: 51.7% and NWEP: 72.5%) did not keep their finances from income-generating activities separate from personal or household finances. Thus it is clear that for a majority of service users and contrary to the instructions of the microfinance institution, loans and business finances go into one financial portfolio (Armendariz de Aghion and Morduch, 2005).

**Table 6.6: Do You Keep Business Money Separate from Personal/Household Finances?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 29 | 48.3 | 48.3 | 48.3 |
| | | no | 31 | 51.7 | 51.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 11 | 27.5 | 27.5 | 27.5 |
| | | no | 29 | 72.5 | 72.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

The study has established that loans were used for both business and non-business purposes and discussed how loans were used for non-business purposes. How were loans employed in business? The most salient point that service users mentioned was that loans enabled them to buy business inputs in bulk. With access to loans service users could now buy in bulk at a discount; bypass the middleman whose prices were relatively higher; and buy at cheaper prices because they could now buy with cash instead of buying on credit. Given the low demand for goods and services in the study area expanding businesses was not a much viable option. Loans enabled service users to buy in bulk and thereby increase business profitability by reducing input costs. This finding highlights the importance of receiving loans at appropriate times if service users are to take advantage of market opportunities such as buying inputs on the cheap during the harvest season. A few other service users said that they used loans to acquire business assets, upgrade and expand their businesses. How loans were employed in business is analysed in detail in section 7.3.

The study assessed whether how loans were managed had implications for loan repayment. Tables 6.7 and 6.8 show the results of the cross-tabular analysis of the relationship aforementioned. There were no statistically significant differences in repayment difficulties for both NWEP and SAT service users who used their loans for other purposes and those who did otherwise. Likewise, no significant difference was found with respect to repayment difficulties for service users who kept monies from their income-generating activities separate from household finances and those who did not. However NWEP service users who used loans for other purposes were slightly more likely to encounter repayment problems but this relationship was not significant. Perhaps the relatively small size of NWEP loans meant that after using loans for other purposes there was not enough left to invest in business to generate profits for loan repayment.

**Table 6.7: Do You Use Loan for Other Purposes by Do You Encounter Difficulty in Loan Repayment?**

| Name of Intervention | | | | Do you encounter difficulty in loan repayment | | Total |
|---|---|---|---|---|---|---|
| | | | | yes | no | |
| SAT | Do you use loan for other purposes | yes | Count | 3 | 28 | 31 |
| | | | % | 9.7% | 90.3% | 100.0% |
| | | no | Count | 4 | 25 | 29 |
| | | | % | 13.8% | 86.2% | 100.0% |
| | Total | | Count | 7 | 53 | 60 |
| | | | % within did you use loan for other purposes | 11.7% | 88.3% | 100.0% |
| NWEP | Do you use loan for other purposes | yes | Count | 6 | 21 | 27 |
| | | | % | 22.2% | 77.8% | 100.0% |
| | | no | Count | 1 | 12 | 13 |
| | | | % | 7.7% | 92.3% | 100.0% |
| | Total | | Count | 7 | 33 | 40 |
| | | | % within did you use loan for other purposes | 17.5% | 82.5% | 100.0% |

Source: Fieldwork Data, 2007/08

**Table 6.8: Do You Keep Business Money Separate from Personal or Household Finances by Did You Encounter Difficulty in Loan Repayment?**

| Name of Intervention | | | | did you encounter difficulty in loan payment | | Total |
|---|---|---|---|---|---|---|
| | | | | yes | no | |
| SAT | do you keep business money separate from pers./hhld | yes | Count | 1 | 28 | 29 |
| | | | % | 3.4% | 96.6% | 100.0% |
| | | no | Count | 6 | 25 | 31 |
| | | | % | 19.4% | 80.6% | 100.0% |
| | Total | | Count | 7 | 53 | 60 |
| | | | % | 11.7% | 88.3% | 100.0% |
| NWEP | do you keep business money separate from pers./hhld | yes | Count | 1 | 10 | 11 |
| | | | % | 9.1% | 90.9% | 100.0% |
| | | no | Count | 6 | 23 | 29 |
| | | | % | 20.7% | 79.3% | 100.0% |
| | Total | | Count | 7 | 33 | 40 |
| | | | % | 17.5% | 82.5% | 100.0% |

Source: Fieldwork Data, 2007/08

### 6.4.4 Loan Repayment

While NWEP required weekly repayments, SAT service users made fortnightly repayments. Both organisations required loans be repaid in instalments over a period of 16 weeks. Staff of SAT and NWEP when interviewed could not offer any satisfactory explanation for the choice of the repayment period of 16 weeks. Service users were expected to bring their monies for loan repayment to meetings which incidentally coincided with the repayment period. SAT service users expressed their appreciation for a two-week repayment grace period after receipt of loans. NWEP too had a grace period of one month for their members.

Loan repayment issues provoked passionate protests amongst service users during the interviews. With regard to the issue of repayment interval, unanimous comments from SAT service users indicated that the repayment interval was too short. These comments on loan repayment are typical of SAT members:

> The only problem I have with them (SAT) is the programme of repayment of the loan. The kind of pressure that comes on you when you don't have money is intense. That one goes against us a lot. We pray and we keep pleading with them to allow us more time like a month before we pay. Gloria Owusu, SAT.

> If they can change our two-weekly payment to one month it will help us. This is because our businesses are not doing very well and so the time for the demand of the money is not very good for us. Yaa Owusuaa, SAT.

NWEP interviewees also complained that the repayment period was too tight and that they wanted the two-weekly repayment interval instead of a weekly one**.** According to Mknelly and Kevane (2002) service users are generally known to complain about repayment instalments but practitioners consider them essential for sustaining high repayment rates. No study was found that had conducted any systematic investigation into the reasons for the incessant complaints on repayment from service users. The reason for the intense repayment pressure could be attributed to a myriad findings unearthed by this study. First, the problem of repayment difficulties can be found in the main assumption behind microfinance: to provide financial services to the entrepreneurial poor so that they can expand their businesses and earn more income. Mohammed Yunus referred to this as the virtuous cycle. In reality and as found in this study (see section 6.4.3), loans are not only used for income-generating activities. The aforementioned, poor markets and fluctuations in economic activities in the area of study constricted the expansion of businesses. Second, repayment pressure was bound to increase because the two microfinance interventions applied the dynamic incentive without corresponding extension of the repayment period.

Regarding the sources from which service users repaid loans, proceeds from income-generating activities was stated as the main source. When proceeds from income-generation activities were insufficient to repay loans, service users relied on members of their family, other service users, friends, and infrequently on moneylenders. When service users are unable to raise funds to make good their debt to the microfinance intervention then the service user is considered by other members of the group to have defaulted.

Respondents were asked about how they handled problems of loan defaults. According to SAT interviewees, the secretaries[57] of the various groups in SAT were usually responsible for the collection of the repayments and if there was a shortfall they made up the difference and later demanded payment from the defaulting member. If the defaulting member was unable to make payment after persistent demands and it was clear the loan could not be paid then the entire group will share the debt equally amongst themselves and as a last resort, pursue the debt through the courts with the assistance of SAT staff.

With regard to loan repayments within NWEP, the solidarity group was the primary and first tier responsible for ensuring that their members paid up. If the repayment problems could not be handled in the solidarity group, then the Credit and Savings Associations (CSAs) dealt with the matter. At the time of fieldwork many NWEP members had observed that the CSAs were increasingly taking up all repayments problems. NWEP service users reported relatively fewer problems with loan repayment. This was perhaps because NWEP service users received relatively smaller loans.

[57] Careful observation by the researcher showed that the secretaries were incidentally relatively less poor and more educated than most other members of the group.

How were recalcitrant members compelled to honour loan repayment schedules? In Table 6.9 below, peer pressure[58] including threat of sanctions was found to be the most commonly used method of ensuring repayment. Over 93% of SAT members and 72.5% of NWEP members agreed that peer pressure was the dominant form of enforcing repayment. The next line of action for enforcing repayment in the two interventions was the use of court action — 6.7% and 12.5% for SAT and NWEP respectively. Interviews indicated that SAT members used court action as the last resort.

> If a member defaults and refuses to pay and the other members are forced to pay, we are allowed to take the offender to court to reclaim the money with the percentage of interest that Sinapi Aba demands. We the members of the group also have a percentage (20%) that we add because we had to pay the debt. Adwoa Benewaah, SAT.

Two NWEP members[59] mentioned using the police as the last resort. According to Yaa Mansa of NWEP:

> When persuasion fails we call on the assistance of the police to handle it… Because people are afraid of the police the moment they see the police, they quickly pay the money.

Members socially ostracised peers and even sometimes verbally assaulted defaulters. Members threatened to let the public know about defaulters. It was admitted public disclosure of debt brought shame on defaulters. Such was the potency of peer pressure that most interviewees claimed they would look for means of repaying the debt rather than to incur the wrath of their peers. In a rural community characterised by strong communal relationships, peer pressure of was quite effective.

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[58] For more on peer pressure see Section 6.3.2.
[59] Akua Manu and Yaa Mansa (NWEP members)

**Table 6.9: How Does your Group Enforce Repayment?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | peer pressure | 56 | 93.3 | 93.3 | 93.3 |
| | | court action | 4 | 6.7 | 6.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | peer pressure | 29 | 72.5 | 72.5 | 72.5 |
| | | court action | 5 | 12.5 | 12.5 | 85.0 |
| | | police action | 1 | 2.5 | 2.5 | 87.5 |
| | | not done | 5 | 12.5 | 12.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

The study examined the groups for any particular problems that exposed groups to repayment problems. Some SAT members recounted how they began to experience problems when remnants of another group were added to theirs. Here is an instance of what one member said:

> They brought some people from another group and added them to our group. This trend of events has not helped us since then the love amongst us has gone down. So the way we used to conduct our activities has changed, Abena Musuo, SAT.

At the time of fieldwork the group to which Abena Musuo belonged was in crisis. Some members had threatened to leave the group because of the repayment difficulties. Adding to members of a group seems to dilute group solidarity built over time and thus weaken members' adherence to the joint liability for loan default. Abena, however, claimed that members of the group consented to the merger but they did not anticipate the consequences.

In spite of the widespread use of loans for non-business purposes, some interviewees of NWEP and SAT argued that loan defaults were dependent on what loans were used for. A NWEP service user cited an example of another service user who had encountered repayment problems. Apparently a member had used her loan to cater for her sick sister while another had used her loan to perform her father's funeral. Further probing showed that both service users had been unable to carry on with their income-generating activities during those times thus causing them to experience financial difficulties and not as a result of how they used their loans. It was quite evident that the inability of service users to repay loans triggered an enquiry into what the loan was used for. Marr (2002) refers to the enquiry into the inability of members to repay loans as peer audit.

In summary, service users complained they came under intense pressure during loan repayment. Evidently, repayment difficulties that service users experienced reflect a combination of factors: limited economic absorptive capacity of the community (poor markets), increasing loan sizes with no commensurate extensions in repayment periods; and loan disbursal at any time of the year without regard to seasonal economic fluctuations. Peer pressure was seen as the dominant means of ensuring loan repayment and it acted both as a deterrent against default and for enforcing repayment.

## 6.5 How are Institutional Savings Schemes Implemented and How do Service Users' Perceive Them?

Institutional savings refer to both voluntary and compulsory deposits that members make to their respective microfinance institutions. None of the two microfinance interventions had a truly voluntary savings scheme. Although SAT professed to operate a voluntary savings scheme known as progressive savings scheme, a minimum amount had been fixed for service users and was compulsory. Nevertheless, members could save more than the minimum amount but very few service users saved above the stipulated minimum. With respect to NWEP, staff said service users did not have a voluntary savings scheme created for them under the microfinance intervention. Service users were encouraged to use the regular savings facilities of the bank. In addition, members could join the bank's *susu* scheme if they wished to save. It is paradoxical that SAT operated a voluntary savings scheme which they were not permitted to do so by law, while NWEP had no voluntary savings scheme even though they had the legal mandate to take voluntary savings from service users but did not.

Both SAT and NWEP had compulsory savings schemes. NWEP had a savings scheme which consisted of 1% of the amount service users borrowed. This amount was paid as part of their weekly loans repayment. Compulsory savings in addition to initial deposits made before joining the intervention were deposited into the accounts of the Credit and Savings Associations. Members, with the approval of the group, could borrow from the fund. Service users could borrow from the group fund for emergencies or crises situations and such loans had a short-term repayment period. Very few service users claimed to have benefited from this scheme. SAT, on the other hand, deducted 10% of every loan provided as compulsory savings on behalf of members. Neither the progressive savings nor the 10% deductions were available to service users: they were accessible only after service users had left the intervention.

Regarding service users' satisfaction of savings schemes, NWEP members were on the average more satisfied compared to SAT's. Over half (57.5%) of NWEP service users compared to 46.7% of SAT members claimed they were satisfied with their savings arrangements (see Table 6.10). Service users who claimed the savings scheme was moderately satisfactory constituted 46.7% in SAT and 42.5% in NWEP. While none of NWEP members said savings facilities were not satisfactory, 6.7% of SAT service users said their savings products were unsatisfactory. NWEP service users were relatively more satisfied with their savings scheme perhaps because of three factors. First, the savings was built into the repayment instalments unlike in SAT where the amount was taken off the loan. NWEP service users were not likely to feel the bite like SAT users who commented that their loan was much depleted after the deductions. Second, the savings amount was not as big as that of SAT, 1% compared to 10% for NWEP and SAT respectively. Third, NWEP service users had access to their savings, albeit quite limited, and they also knew how much they had accumulated over time.

**Table 6.10: How Do You Assess the Savings Scheme of the MF Intervention?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | satisfactory | 28 | 46.7 | 46.7 | 46.7 |
| | | moderately satisfactory | 28 | 46.7 | 46.7 | 93.3 |
| | | not satisfactory | 4 | 6.7 | 6.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | satisfactory | 23 | 57.5 | 57.5 | 57.5 |
| | | moderately satisfactory | 17 | 42.5 | 42.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

Service users' knowledge about the amount of money they had saved differed in the two interventions. Staff of NWEP stated that the Credit and Savings Associations (CSAs) had passbooks in which all monies belonging to the group were recorded and in addition to that each service user had a passbook that showed the amount of money they had accumulated. This information was confirmed by service users of NWEP. The field staff of SAT also indicated that their service users had been issued with passbooks which showed the amount of money they had saved. However, all service users of SAT interviewed vehemently denied that claim. They stated they had not been provided with passbooks and they could only guess how much money they had saved. For example, Afia Kusi stated:

> What I want to say is that they (SAT) should let us know about the monies they make us deduct and put aside as security so that each of us can know how much we would get individually from the contributions if we are to get out (of SAT) today.

Asked whether SAT informed service users knew how much money had accrued to them, a service user replied;

> No! They don't do anything if that sort. They will only tell you the percentage deducted say 10% or 5% to which you had to calculate how much money you have. If I decide to leave the intervention right now I surmise the minimum amount I will receive will be about GH¢75 or GH¢80. Gloria Owusu, SAT.

The researcher saw firsthand, a situation that confirmed the service users' claims. During the fieldwork period the researcher talked to a service user who was leaving the intervention and had discovered her total savings was far less than what she envisaged she would receive. Many SAT service users expressed apprehension of being of being kept in the dark concerning the amount of money they had with SAT. Many service users were of the opinion they could be cheated. The researcher pursued this issue further but was offered no evidence of documented savings from SAT.

Another important area which most service users were not knowledgeable about was the issue of whether the interventions paid any interest on their savings. In Table 6.11 below, 96.6% and 82.5% of SAT and NWEP service users respectively stated that their savings did not attract interest or they had no idea whether it did. Staff of both interventions categorically stated that they indeed paid interest on savings. The researcher had no independent means of assessing the veracity of the intervention staff's assertion.

**Table 6.11: Does Your Savings Attract Any Interest?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 2 | 3.3 | 3.3 | 3.3 |
| | | no | 44 | 73.3 | 73.3 | 76.7 |
| | | no idea | 14 | 23.3 | 23.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 7 | 17.5 | 17.5 | 17.5 |
| | | no | 10 | 25.0 | 25.0 | 42.5 |
| | | no idea | 23 | 57.5 | 57.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

To conclude, the discussion on savings has portrayed the disparity between what the interventions claim to do and what service users claim to experience. As in all aspects of the microfinance intervention, the savings facilities were imposed on service users without their input. Interviews suggested that service users lacked knowledge about various aspects of the savings scheme and that savings was perceived as a cost to be borne in order to gain access to loans. Although service users generally exhibited lack of knowledge on the savings schemes, their general satisfaction of the savings scheme as shown in Table 6.10 probably reflected the fact that it enabled them to accumulate some sums of money.

### 6.6 What are the Non-Financial Services Components of the Microfinance Interventions and to What Extent are they Relevant to Service Users?

Both SAT and NWEP had comprehensive programmes regarding the provision of non-financial services as part of their interventions. In fact the strategy underlying NWEP was known as ‘credit with education’ (CwE) scheme. The Freedom from Hunger (FFH) organisation that helped establish NWEP made educational training the cornerstone of the intervention (see section 4.7). SAT and NWEP provided training for service users before providing financial services and also periodically provided education and other training to their users.

Interviews with NWEP staff indicated that newly constituted groups were taken through a four-week training session on group dynamics, business skills, health and nutrition. NWEP service users stated that apart from the initial training they were offered periodic education on breastfeeding, nutrition and on the judicious use of the additional income from business that the interventions enable service users to generate. Service users were also educated on how to deal with some diseases such as diarrhoea and malaria in emergency situations. However, after the withdrawal of Freedom from Hunger from the programme in 1999, the credit with education component of the microfinance intervention had practically ceased.

SAT officials claimed their intervention advocated the holistic transformation of service users and therefore included social, spiritual and political issues as well as business and group management training. SAT offered two types of training programmes: training provided by loan officers; and participatory training by service users themselves and external resource persons. Apart from the initial training and education provided to all members, SAT interviewees said that subsequent education and training programmes were given only to the leaders of the various groups who were in turn to pass it down to their members. The leaders met on the last Tuesday of every month for such educational and training programmes in the SAT district office in Sunyani. Resource persons educated them on subjects like menopause, HIV/AIDS and treatment of diarrhoeal cases in children.  Interviewees mentioned that in crisis situations such as disease outbreaks SAT would sometimes offer them education on how to avoid contracting the disease. For instance, when there was a cerebrospinal meningitis (CSM) outbreak in the northern part of the country that threatened to spread to other parts of the country, SAT brought in resource persons to educate service users on the disease in Nsoatre.

Many members of SAT and NWEP thought the non-financial educational and training provided them were appropriate and beneficial. Interviewees had this to say:

> The educational aspect helps us a lot. Especially to be educated about a deadly disease like HIV/AIDS is very good since we are the vulnerable people when it comes to sex. This education about HIV/AIDS will help us abstain from it (casual sex) and concentrate on our work. I wish they will not stop giving us the education but instead make it more regular. Gloria Owusu SAT.
>
> They teach us many things. What I really like is education on how to budget our money so that we don't use it frivolously. Teaching us on how to maintain a healthy relationship with other members in our groups has helped us a lot. Joyce Konadu, NWEP.

However, in the questionnaire, when pressed to mention three specific types of non-financial services that the intervention had provided them, surprisingly most service users of both SAT and NWEP were unable to do so. Service users stated that after the initial training[60] not much training and educational activities took place thereafter in both interventions. In SAT, although field officers were expected to give business training at meetings and on loan disbursement days, there were hardly any time for anything other than loan repayment and allied matters. Holding meetings on Friday, the market day and the fact that staff members of the intervention were perennially late for the meetings meant meetings were poorly attended and no meaningful educational or training could be effectively delivered. Regarding NWEP and as stated earlier, with the withdrawal of the Freedom from Hunger from NWEP, the Bank seemed more interested in the financial issues and had, to a large extent, neglected to continue the educational aspect of the intervention.

It can be argued that, for instance, if the interventions' instructions and training on loan use does not reflect how service users actually apply their loans then such training will not be relevant to service users and will easily be forgotten. It is noteworthy that during interviews service users mostly mentioned education on diseases control but not business management and the other issues related to loan management. Probably, service users only discussed non-financial services that were of relevance to them.

### *6.7 What Constitute the Costs of Microfinance and what are Service Users' Perceptions of these Costs and Why?*

Cost of microfinance is generally perceived in terms of interest rates. In reality costs go beyond interest rates to include charges and deductions, attending meetings and the

[60] Training provided during the formation of the groups.

issue of joint liability. The cost of microfinance to service users is generally higher because the problems that orthodox financial institutions have to grapple with such as adverse selection, moral hazard and enforcement are passed onto microfinance service users (Armendariz de Aghion and Morduch, 2005**).**

### 6.7.1 Interest Rates

As discussed in the background chapter, SAT charged an interest rate of 35% (flat). According to staff of SAT, the flat interest rate of 35% is applied to the loan amount and the total divided by the number of repayment instalments. This interest rate translates into about 95% APR. According to staff, NWEP, on the other hand, charged interest of 51% (flat) on loans. This converts to over 150% APR. NWEP staff attributed the rather high interest rate to huge cost incurred in managing the intervention. The interest rates charged by the two interventions compare with that of between 25% APR and 32% APR charged by orthodox banking institutions (BOG, 2008) and between 100% and 1200% charged by moneylenders (Buckley, 1997). The researcher was unable to obtain independent confirmation of the level of interest that service users actually paid.

Knowledge of the level of interest rates charged on loans was very limited among service users in both interventions. When asked about the level of interest charged on loans, most of the interviewees responded they did not know. However, some service users knew the total amount of interest they paid. For example, a service user of NWEP claimed that for every GH¢100 they took as loan, they paid interest of GH¢20 in a repayment period of 16 weeks. A member of SAT claimed she paid almost

GH¢40 interest on a loan of GH¢300. Two service users[61] of SAT quoted interest rates that did not tally with that stated by staff of the intervention. Other reasons for service users' limited knowledge could be the lack of transparency in interest rates, especially the common practice of charging flat interest instead of using the reducing balance method (APR). This strategy almost doubles the effective interest rate (Harford, 2008). The high level of illiteracy among microfinance users implied that they were unable to comprehend how much interest rate they actually paid.

In spite of the limited knowledge on amount of interest charged on loans, most SAT and NWEP service users stated that the interest rates were satisfactory. Further probing indicated that they reached that conclusion by comparing the interest rate charged by the interventions with that charged by moneylenders. However, it has been established that the poor hardly ever borrowed from moneylenders for business purposes. An important reason for service users being satisfied with the evidently high interest rates can be found in the rural poor people's conception of interest rates. Many studies (CGAP, 2003; Dehejia, Montgomery, Morduch, 2005; DFID, 2006) have observed that users of microfinance users were not bothered by high interest rates without investigating the reason for this observation. Interviews revealed that service users were interested in the total amount of interest and not in the rate**.** Indeed there was no direct translation for the term 'interest rate' in the local language. It took some explanation to convey the meaning of the term. What the service users knew well was '*nsiho*' which means the total amount of interest. For instance when asked how much interest was charged on a loan, a service user would mention the total amount of interest she paid on the loan but did not know or remember the interest

[61] Kwame Manu and Adwoa Benewaah

rate. Going back to the first interviews, a service user could recall that she paid total interest of GH¢20 on a loan of GH¢100 and yet could not recall the interest rate. The issue of time in interest rates had little meaning for the service users[62]. This observation has been documented in a study by Shipton (1992), as cited in Buckley (1997:1088) who found similar perceptions of interest rates in some African societies. The service users of the two interventions can be described as financially illiterate as far as interest rates were concerned.

### 6.7.2 Other Charges and Deductions

Charges and deductions are payments made by service users to microfinance institutions through actual cash payments or deductions from the loans. NWEP required that members save for a period of time before they were granted loans. Staff of NWEP claimed that the frequency and quantum of the savings was a determinant of the amount of money granted as loan. Some service users commented that there was pressure to increase the amount and frequency of savings in order to create the impression of being more creditworthy and attract bigger loans. In reality, however, some service users said they received the same amount of loan during the first cycle. Service users as a result could sometimes have large amounts of money locked up in that sort of compulsory savings.

Although SAT members did not have to make any savings before they began their first cycle, the intervention had a myriad of charges and deductions: loan application fee; processing fee; training fee; insurance; and compulsory savings. Staff stated that

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[62] Moneylenders are known to give various loans with interest at the same proportion to the loan irrespective of the amount of time to remaining to the harvest period when all the loans were required to be paid.

a loan application fee (GH¢1) and training fee (GH¢0.5) were required at the commencement of each cycle. Staff of SAT again indicated that an amount of 2% was added to the interest rates as insurance. A processing fee of 3% was also deducted from loans. Some service users complained about having to pay training fees every time they began a new cycle when they had undergone the same training on numerous occasions during previous cycles. SAT interviewees protested that too much money was being deducted from their loans.

In addition to deductions and charges mentioned above, staff of SAT said that from every loan granted, SAT made a 10% compulsory deduction as loan guarantee. Many of the SAT members grumbled that this deduction severely reduced the amount available to them. Total deductions amounted to about 20% of loans they were given and yet they had to pay interest on the total loan amount. Members thought the fact that they were jointly liable for loans should have been precluded any compulsory savings or loan guarantee. Lastly, SAT had implemented a voluntary savings scheme known as progressive savings. However, according to interviewees, an amount of GH¢1.00 had been fixed for all members, which they paid anytime they made loan repayments. In effect this savings scheme had become compulsory and members who were unable to pay were considered defaulters and had to make up the payment later. On top of it all SAT members could access the compulsory and ‘voluntary’ savings only when they quit the intervention.

### 6.7.3 Meetings

As discussed earlier, SAT members held their meetings every two weeks on Fridays, while NWEP had weekly meetings organised on Wednesdays. Meetings were compulsory and a member could be expelled from a group for not attending meetings. Meetings were not popular among service users in the two institutions. NWEP interviewees commented that on meeting days they could hardly engage in any other economic activity like visiting the farm. Some suggested holding meetings fortnightly. In spite of its unpopularity interviewees conceded that meetings broke the monotony of everyday life and presented them the opportunity to meet friends.

SAT meetings were held fortnightly on Fridays, the ‘market day’ of the community. As already discussed, meetings on Friday put severe constraints on trading activities of service users. On two occasions that the researcher was present at meetings of SAT, the field staff of SAT chairing the meeting was late and this caused much concern. Service users were clearly anxious to attend to their businesses and were obviously reluctant to attend the scheduled meeting. Evidently attending meetings on Fridays came at a high cost to SAT members. Meetings were poorly attended and although SAT regulations stipulated that members were liable to dismissal for failing to attend meetings on three occasions, apparently no one had suffered dismissal because of the problems associated with meetings on Friday.

### 6.7.4 Joint Liability

Joint liability essentially implies microfinance institutions shifting much of the burden of monitoring, enforcement and loan default onto groups. In other words, it meant groups members had to shoulder the liability of loan repayment of their peers on behalf of the intervention. Both interventions applied joint liability as a form of social collateral. Interviewees who were in groups with high default rates expressed concern about having to pay the debts of others. When asked about what they thought about the issue of joint liability, some service users bitterly asked why they should be made accountable for loans taken by others. Another issue that most interviewees complained about had to do with being liable for relatively bigger loans others members had taken. For instance, some NWEP and SAT service users complained about the fact that they had to co-guarantee loans of other members who had taken about twice the size they had received. There were suggestions that if the strategy of joint liability was to be equitable, then members of each group should be offered similar loan sizes.

SAT interviewees mentioned how they had to spend much time taking recalcitrant members to the law courts to recover monies they had paid on their behalf. NWEP service users said they sometimes resorted to using the police to help them retrieve monies from defaulting members. NWEP service users stated that the use of the police (an illegal activity[63]) had caused a lot of disaffections amongst group members and had increased tension among relatives and kinsmen in such as close-knit rural community.

## *6.8 Conclusion*

This chapter described and analysed the relevant processes of the two interventions in the area of study primarily from the perspective of the service users. The chapter

[63] Loan default and debt collection are civil matters rather than criminal and therefore the police are not supposed to be involved.

answered questions on group activity, loans, savings, non-financial services and costs of microfinance. Self-selection was found to be important for subsequent activities of the groups. Service users' knowledge and participation in the processes were reviewed. It was discovered that in spite of the acclamation of microfinance interventions as a bottom-up approach (Dowla and Barua, 2006; Agrawala and Carraro, 2010) service users were not involved in the design and implementation of interventions. Apart from the solidarity groups in NWEP, service users did not have control over the formation of Trust Banks or the CSAs, which incidentally bore the ultimate liability for loan defaults. Indeed service users had no voice in how and when loans were disbursed and repaid. Savings schemes and the provision of non-financial services were all managed by the interventions without any inputs from service users. Another recurring issue in the chapter was service users' lack of knowledge on many of the components of the intervention. Service users of the two interventions showed a consistent lack of knowledge (or interest?) on interest rates and non-financial services. Most service users, however, knew the total amount of interest charged on the loans. The observed patterns suggest that service users were more concerned and more knowledgeable on issues that were related to the survival of the groups and consequently their continued access to microfinance services. All other components were considered as costs that had to be borne in order to access financial services, particularly loans from the intervention. The chapter identified disparities between what is publicly known about the two interventions and what actually occurred in the field (implementation gap). The implementation gap was more evident in SAT than NWEP. The study tested some theories on some components of microfinance. For instance, the study assessed the effect on peer monitoring loan repayment. It was found that peer monitoring was not necessary in ensuring loan repayment in an environment where loans could be used for purposes other than income-generating activities. It was found that groups enjoyed some level of autonomy but within the boundaries set by the interventions. In sum, although the interventions were essentially established as development interventions, the interventions' processes suggests there were not much explicit strategies to ensure that the poverty reduction objectives were achieved.

# CHAPTER VII

# MICROFINANCE PROGRAMMES AND IMPLICATIONS FOR POVERTY REDUCTION

*So we find out that such and such a percent of people have such and such a percent increase in income. So what. It doesn't tell us what to do about it.' (Participant at Micro credit summit meeting New Delhi 2001).*

## *7.1: Introduction*

Most microfinance processes primarily enable financial institutions to sustainably provide financial services to the poor. These processes cannot be said to have a neutral effect on poverty levels of their users. This chapter endeavours to assess the poverty outcomes of the intervention components and characteristics of service users. Characteristics of service users include the socio-demographic and business attributes. Poverty outcomes are operationalised in terms of business and household outcomes. Cross-tabulations, ordinal logistic regression and qualitative data are used in this analysis. It is important to note that some of the intervention components such as interest rates do not vary with respondents and therefore was not amenable to quantitative analysis. In such situations the poverty implications of the components were assessed based on the extant microfinance literature. In this study poverty reduction implications of the interventions also include an assessment of the microfinance interventions capability to retain poorer service users. Analyses and discussions of the microfinance interventions in the previous chapter constitute the basis for the assessment of poverty reduction implications of the microfinance interventions in this chapter. The analytical techniques employed in this chapter are comprehensively discussed in section 5.3.

The chapter is organised into seven main sections. After the introduction, the first section assesses the poverty implications of the socio-demographic and business characteristics of service users. Sections two and three assess the effect of the interventions on businesses and households respectively. This is followed by the fourth section which investigates the poverty outcomes of the group lending strategy. In the fifth section, the effect of the various aspects of loan matters is assessed for their effects on poverty. Finally, sections six and seven explore the effect of savings and the costs of microfinance on poverty.

## *7.2 Do Socio-Demographic and Business Characteristics have any Implications for Poverty Reduction and Why?*

Although characteristics of service users and their businesses are not part of the implementation process and are considered as control variables in the study, their effect on businesses and households are assessed as part of understanding effects of microfinance. The above question intends to shed light on how socio-demographic and business characteristics affect poverty reduction from the perspective of the service users. Analyses in Appendices 1 to 3 and qualitative data are employed to answer this question.

### 7.2.1 Women and Poverty Reduction

Most microfinance institutions have targeted women. The general perception of microfinance is banking for women (Hulme and Mosley, 1996; Armendariz de Aghion and Morduch, 2005). This observation characterises the microfinance sector in Ghana because the informal non-farm sector that microfinance institutions serves constitute mainly women (Ashong and Smith, 2001). Staff of NWEP were emphatic that their intervention was geared towards reducing poverty among women. During interviews service users constantly mentioned that their major reason for joining the interventions was to help cater for their households. From Table 7.2 in section 7.3, it was evident that the interventions generally had beneficial effects on household consumption. This finding is supported by the literature. For example Khandker (2003), in a study in Bangladesh, estimated that microfinance contributes to household consumption at the rate of 18% for lending to females and 11% in the case of male borrowing. Women were also found to spend more of their incomes on households compared to men (Chester and Kuhn, 2002). Additionally, in targeting women in a community such as Nsoatre which is a matrilineal society, microfinance assumes another important poverty reduction function. In such societies children belong to the woman’s maternal family and as a result the welfare of children is the primary responsibility of women (Oppong and Abu, 1987). Targeting women in Nsoatre therefore ensured that the financial resources that accrue to women are used to cater for the household, especially children.

### 7.2.2 Enterprising Poor

The major criterion for eligibility for membership into the two microfinance interventions was that potential service users should already be engaged in a non-farm micro-enterprise or income generating activity. Hulme and Mosley (1996) also observed that many microfinance institutions give loans to people with already-established income-generating enterprises rather than for business start-ups.

The category of people that microfinance institutions targeted has important implications for poverty reduction. Those targeted by the interventions were not considered among the poorest or most vulnerable in the community. The poorest in most rural areas in Ghana are the subsistence farmers, especially food crop farmers (Canagarajah et al., 2001; Nkum, 1998). Adjei and Arun (2009) argue that the pursuit of financial sustainability prompted SAT to target the less poor instead of the poorest. Microfinance institutions in general are usually reluctant to do business with food crop farmers because they are considered high risk and therefore unattractive microfinance clients (Weiss and Montgomery, 2005). However, Hulme and Mosley (1997), Zaman (2000) and Robinson (2001) argue that there is little evidence to support the fact that the entrepreneurial poor are the only people who can benefit from microfinance. It can be argued that, by excluding food crop farmers the intervention failed to reach the poorest in the rural area.

### 7.2.3 Socioeconomic Status of Service Users and Poverty Reduction

Variables that measure the extent of poverty and vulnerability (such as marital status and occupation of spouse) of service users generally suggested that the microfinance interventions benefited poorer service users[64] (i.e., single service users and those whose spouses were farmers) compared to the less poor (see Tables 2.1A, 2.2A and 3.1A-3.6A in Appendix 2 and 3). In SAT all variables that estimated levels of poverty supported the above observation while in NWEP, however, this trend was not so obvious in the cross-tabulations with the exception of the cross-tabulation between household outcomes and 'occupation of spouse' (see Table 2.1A in Appendix 2). However after controlling for other variables in the ordinal logistic regression analysis (see Tables 3.1A to 3.6A in Appendix 3), the trend was clear: the socio-economic status of service users measured by the variable 'occupation of spouse' consistently indicated that poorer service users who were single and spouses of farmers were more likely than the less poor (spouses of service users in non-farming occupations) to experience positive business and household outcomes. Additionally, Table 2.3A in Appendix 2 shows that in the two interventions service users who were poorer (single) were more likely to have increased or increased their contribution to the education of their children than the less poor (married). This relationship was significant. For more on the poverty levels among the different occupations see Canagarajah et al. (2001) and Ghana Statistical Service (2000).

[64] None of the cross-tabulations and regression analyses were statistically significant, however, the consistency in the direction of the relationships indicate that poorer service users experienced more positive household and business outcomes

The above finding seems to run counter to other studies that have generally found that microfinance benefits the less poor (Hulme and Mosley, 1996; Buckley, 1997; Remenyi and Quinones, 2000; Coleman, 2002, Copestake, 2002; Shaw, 2004; Johnson, 2005). For example, Hulme and Mosley (1996) hypothesised that less poor service users were more likely reap more benefits from microfinance by investing in more risky but profitable income-generating activities than the poor who are risk-averse. The authors also found empirical evidence of larger positive impacts on income for better-off borrowers.

What accounts for the contrary finding of this study? It is probable that the effects of the microfinance interventions might have had proportionately greater effect on businesses and households of poorer service users than those who were relatively better-off. Such results might not be evident in conventional surveys that employ objective indicators because they seek to measure absolute effects. In addition, the indicators used (see Table 7.2 and 7.3 in sections 7.3 and 7.4) could also explain why findings of this study differ from that found in the literature. It is well known that the poor spend a greater proportion of their income on household consumption (Hazell and Roell, 1983) and with the household indicator mostly made up of household consumption variables, it is likely the poor will score higher points on the composite indicator 'household outcomes' than the less poor.

### 7.2.4 Borrowing from Other Sources[65] for Business

As observed in the cross-tabulations and logistic regression analysis[66] service users who borrowed from other sources for business were more likely to experience

[65] Other sources here denote other microfinance interventions.

beneficial business outcomes. Service users who borrowed from other sources (from other microfinance interventions) were over 15 times more likely to state that their businesses improved ‘somewhat’ or ‘very much’ compared to service users who borrowed from one intervention. However, only 4 service users from each intervention claimed to have borrowed from another microfinance intervention (see Table 1.13A in Appendix 1). This relationship is very strong and statistically significant. What were the characteristics of those who borrowed from multiple microfinance institutions? From a cross-tabular investigation as shown in Table 7.1 below, all the service users who borrowed from other sources were likely to be poor (4 were single and the remaining 4 were spouses of farmers). This observation lends more credence to the finding that poorer service users were more likely to experience more positive outcomes.

**Table 7.1 Occupation of Spouse by Do you Borrow from Other Sources for Business?**

| | | | Occupation of spouse | | | |
|---|---|---|---|---|---|---|
| | | | N/A | non-farming | Farming | Total |
| do you borrow from other sources | Yes | Count | 4 | 0 | 4 | 8 |
| | | % | 50.0% | .0% | 50.0% | 100.0% |
| | No | Count | 29 | 26 | 37 | 92 |
| | | % | 31.5% | 28.3% | 40.2% | 100.0% |
| Total | | Count | 33 | 26 | 41 | 100 |
| | | % | 33.0% | 26.0% | 41.0% | 100.0% |

Source: Fieldwork Data, 2007/08

Why will borrowing from multiple microfinance interventions result in positive business outcomes? Two explanations could be adduced for the above observation. First, service users who took loans from multiple interventions were the more entrepreneurial than their peers and therefore made better use of the loans. Second,

[66] See Tables 2.2A, 3.2A, 3.3A and 3.6A all in Appendices 2 and 3.

service users took loans from other microfinance institutions after their businesses showed improvement. From the two explanations above, it is difficult to tell which occurred first, improvement in business outcomes or borrowing from multiple microfinance interventions. This finding needs to be investigated further in subsequent studies.

## *7.3 How do Microfinance Interventions Affect Service Users' Businesses?*

Seven variables were selected to assess the effect of the interventions on the various dimensions of businesses of service users which were termed as businesses outcomes in this study (see Table 7.2). The variables[67] were selected primarily based on interviews, observations and a SEEP manual[68]. The study assessed changes in business outcomes since service users joined the intervention using the three-category ordinal response shown in Table 7.2 below.

**Table 7.2 Business Outcomes of Microfinance Interventions**

| Variables | Not at all (%) | Somewhat (%) | Very much (%) |
|---|---|---|---|
| Expanded size of business | 8.3 (2.5)* | 41.7 (65.0) | 50.0 (32.5) |
| Added new products | 43.3 (30.0) | 31.7 (42.5) | 25.0 (27.5) |
| Hired more workers | 81.7 (87.5) | 11.7 (7.5) | 6.7 (5.0) |
| Reduced cost by buying in greater quantities | 15.0 (17.5) | 43.3 (37.5) | 41.7 (45.0) |
| Improved quality of business products | 23.3 (22.5) | 35.0 (47.5) | 41.7 (30.0) |
| Developed new business | 46.7 (45.0) | 35.0 (37.5) | 18.3 (17.5) |
| Increased business assets | 21.7 (27.5) | 41.7 (45.0) | 36.7 (27.5) |

Source: Fieldwork Data, 2007/08
*NWEP figures in brackets

[67] For further information on the rationale for the choice of business and household outcomes see section 4.4A in Appendix 4.
[68] See Nelson, C. et al. (2004). Learning from Clients: Assessment Tools for Microfinance Practitioners. Washington D.C: SEEP Network.

Regarding whether service users had been able to expand their businesses as a result of being with the intervention, 50% and 32.5% of service users of SAT and NWEP respectively said they had expanded their businesses 'very much'. Data from the interviews revealed that most of the consistent expansion in business occurred at the initial stages of joining the intervention. This finding supports Hulme and Mosley's (1996) assertion that informal businesses were unlikely to experience continuous growth. They claim businesses were more likely to reach a peak in growth after one or two cycles and thereafter remain in a steady state. Service users who responded 'somewhat' (SAT, 41.7% and NWEP, 65%) reflects the norm: businesses expansion fluctuated with seasonal changes in demand for goods and services in the community. In total, the quantum of expansion in business was rather small due to the perennial low demand for goods and services in the area of study, as the other variables will indicate.

The addition of new products refers to adding other products similar to that of the existing income-generating activity. For instance, a seamstress claimed to have started selling tailoring products (buttons, sewing thread, sewing machine parts, etc.) in addition to her normal sewing work. Adding new products was an important livelihood strategy for the poor; it essentially enabled them to reduce risk. When asked whether they had been able to add new products to their business, about a quarter of service users of both interventions responded 'very much'. In Table 7.2, about 40% and 30% of service users of NWEP and SAT respectively said they had not added any new products to their businesses. The addition of new products to an existing business was usually a sporadic activity dictated by seasonal ebb and flow of economic activity.

Does access to microfinance services help to create employment opportunities? The question in Table 7.2 is aimed at determining the extent to which microfinance resulted in the increase in direct paid non-family labour (part- and full-time) in the income-generating activity of service users. The study did not assess indirect employment creation in the community. Did the expansion of service users' businesses result in the creation of employment opportunities? Business expansion was not very substantial and was limited to the initial stages or tended to fluctuate with seasonal fluctuations in demand and therefore as shown in Table 7.2, most service users (NWEP 87.5%; SAT 81.7%) were unlikely to have hired workers for their businesses. On the other hand when there was the need to employ some workers, interviews showed that wages were so low that very few people were willing to work for the micro-entrepreneurs. Some service users complained of the lack of labourers because few people were willing to work for the very low wages they paid. Interviews and observations indicated that if there was any need for labour service users mostly relied on members of their households, a finding confirmed by Hulme and Mosley (1996). It is evident in Table 7.2 that rural microfinance hardly resulted in employment openings in informal micro-enterprises. Buckley (1997) explains that in rural areas few informal businesses actually employ people on a consistent full-time basis. Other findings that support the reason why employment generation capability of microfinance interventions was modest were the limited rural markets which inhibited continuous business growth and the widespread use of loans for purposes other than income-generating activities.

Buying in greater quantities in order to reduce cost was an often-used business strategy by interviewees. A SAT service user who traded in venison, for instance, claimed that as a result of the loan she no longer had to buy on credit at high prices from the middlemen: she could now afford to buy directly from the hunters at relatively low prices. Severe fluctuations in prices of agricultural products in Nsoatre meant that food vendors and other service users who used agricultural products in their income-generating activities or traded in them could reduce cost by buying cheaply in bulk during the harvest season[69]. While it is difficult to increase revenue due to poor markets, by buying in bulk service users were able to reduce their input costs thereby increasing their profit margins. Over 80% of service users had employed this strategy intermittently (somewhat) or consistently (very much) in their income-generating activities.

The two microfinance interventions gave their service users lessons on business improvement and management. Quality of business products was concerned with making products and services more hygienic, safe and presentable. Some service users in the two interventions reported that initial training they received enabled them to improve the quality of their business products. Food vendors, for example, were schooled on how to make their food hygienic, safe and presentable. The majority of members said the quality of their business products had improved 'very much' or 'somewhat' (see Table 7.2).

Although business or occupational diversification is considered an important livelihood strategy for the poor, close to half of service users had not developed a new business. Over 30% of service users had developed new businesses but intermittently. An average of 18% of service users in both interventions answered 'very much' to

[69] Buying in bulk during harvest time underscores the importance of receiving loan at the appropriate time.

development of new businesses. Service users were more likely to add new products to existing businesses than establish new businesses altogether because of the smallness of the loans and the poor markets in Nsoatre. Some service users claimed they were reluctant to establish new income-generating enterprises because they could not find reliable people to assist them to manage their businesses.

The final variable examined how microfinance had enabled service users to increase their business assets. About 37% and 28% of service users in SAT and NWEP respectively claimed to have consistently increased their business assets as a result of being with the interventions. Close to half of service users in both interventions said they increased business assets intermittently. Like expansion in size of business, consistent increase in business assets were mostly limited to the initial stages of joining the intervention. Mknelly and Kevane (2002), observed a similar pattern in Burkina Faso where women made a one-time investment in productive capacity (buying larger cooking pots, improving market stall etc) in their first years with the intervention and thereafter invested very little in asset accumulation.

Some salient conclusions can be drawn from the discussion of the effect of microfinance interventions on businesses of service users. Seasonal economic fluctuations seem to significantly influence income-generating activities of service users. Microfinance services did not engender much businesses expansion nor did it culminate in significant increase in business assets. Income-generating activities of service users had a negligible effect on employment generation. This including other factors discussed suggests that it is not a very good strategy to use microfinance as a means of generating direct employment opportunities in rural areas. Finally, service users' businesses seem to benefit from microfinance primarily through being able to buy in bulk at lower prices including buying agricultural products at cheaper prices during the harvest period.

## *7.4 How do Microfinance Interventions affect Household Consumption & Asset accumulation?*

Household outcomes are made of variables that mainly measure changes in consumption and asset accumulation in the household. The rationale was to ascertain how the interventions had contributed to mainly changes in consumption and asset accumulation in the household. The seven variables measuring the effect of interventions on households are shown in Table 7.3 below.

**Table 7.3: Household Outcomes of Microfinance Interventions**

| **Variables** | **Not at all (%)** | **Somewhat (%)** | **Very much (%)** | **N/A (%)** |
|---|---|---|---|---|
| Contributed/increased contribution to household finances | 20.0 (10.0)* | 38.3 (40.0) | 41.7 (50.0) | |
| Contributed/increased contribution to children's education | 30.0 (17.5) | 31.7 (37.5) | 28.3 (45.0) | 10.0 |
| Enabled household to cope during lean season | 6.7 (7.5) | 58.3 (82.5) | 35.0 (10.0) | |
| Acquired long-term assets | 65.0 (87.5) | 16.7 (2.5) | 18.3 (10.0) | |
| Contributed to the acquisition of household assets | 63.3 (82.5) | 20.0 (5.0) | 16.7 (12.5) | |
| Increased ability to cope with household emergencies | 13.3 (15.0) | 33.3 (42.5) | 53.3 (42.5) | |
| Make/increased household savings | 25.0 (22.5) | 53.3 (72.5) | 21.7 (5.0) | |

Source: Fieldwork Data, 2007/08
*NWEP figures in brackets and SAT's without brackets

Regarding whether the intervention had contributed or increased their contribution to household finances, the largest proportion of service users in both interventions (SAT; 41.7%: NWEP; 50.0%) affirmed the intervention had done so consistently. Household finance refers mainly to the local traditional money required for daily food consumption. Respondents refer to this as '*chop money*'. Only 10% and 20% of members of NWEP and SAT respectively acknowledged that the microfinance intervention had not contributed or increased their contribution to household finances. The fact that 80% and 90% of service users in SAT and NWEP respectively claimed that microfinance had enabled them to consistently and intermittently contribute or increased their contribution to household finance was expected because interviewees claimed their major reason for joining the intervention was to assist their spouses to take care of their households.

Service users were asked whether the intervention had enabled them contribute or increase their contribution to the education of their children because during interviews service users frequently mentioned using proceeds from the intervention to cater for their children's education, especially paying their school fees. NWEP service users were more likely than SAT members to say they had contributed or increased their contribution to their children's education. Only 17.5% of NWEP service users compared to 30% of SAT members said that the interventions had not contributed or increased their contribution to the education of their children. In the case of SAT there were some respondents (10%) who did not have children and this is represented as N/A (not applicable) in the table.

For people living in a rural area characterised by economic fluctuations, ability to cope during the lean season when there was low demand for goods and services as well as food scarcity was important. The majority of service users (SAT, 93.3; NWEP 92.5%) said the intervention had enabled them to cope consistently (very much) and intermittently (somewhat) during the lean season[70]. Less than 8% of service users of both interventions said the microfinance interventions played a no role (not at all) in enabling them to cope during the lean season. Thus the interventions played an important role in enabling service users overcome a major problem inherent in most rural areas in Ghana.

With regard to the acquisition of long-term and household assets, the interventions seem to have played a minor role. Long-term assets refer to items like building plots, farmlands, and houses, while household items denote items such as televisions, mattresses and cooking stoves. Increase in assets in the household is regarded as an important indicator of the effect of microfinance interventions and indeed a measure of household wealth (Morris and Barnes, 2005). An average of about 64% and 85% of SAT and NWEP service users stated that the interventions did not culminate in the acquisition of long-term and household assets (see Table 7.3). However between the two interventions, SAT contributed more to the acquisition of household and long-term assets than NWEP. Poorer rural people are likely to spend more of their incomes on consumption (especially for reducing vulnerability) rather than on investment (acquiring assets). NWEP service users were found to be poorer than SAT's and this perhaps explains the differences in asset accumulation.

The ability to cope with household emergencies was perceived as an indicator of the rural poor's resilience to vulnerability and an important poverty reduction determinant. Only 13.3% and 15% of SAT and NWEP service users respectively

[70] The lean season in the area of study begins around March and ends in July. This is the farming season where lack of food coincides with the peak labour period and high morbidity due to prevalence of the mosquito (malaria).

stated that the interventions had not enabled them to cope with household emergencies. This shows the extent of the interventions contribution to enabling service users cope with household emergencies.

Regarding the issue of the interventions enabling service users to make or increase household savings, a majority of service users (SAT; 53.3%: NWEP; 72.5%) replied ‘somewhat’. This implies that savings amongst service users was usually intermittent depending on time of the season. Service users would perhaps make more profit and save during the harvest period and make use of the savings during the lean season. Only 5% of NWEP service users compared with 21.7% of SAT service users claimed they saved consistently. Once again there is a suggestion here that the less poor (SAT service users) were able to save more consistently than poorer people (NWEP service users). The poorer service users were perhaps affected by seasonal fluctuations in economic activity than the less poor.

The major conclusion that can be drawn from the above analysis and discussion of the effect of the interventions on service users’ household is that microfinance interventions have limited effect on asset accumulation but increase household consumption. On a comparative basis, however, SAT had a slight advantage with respect to accumulating assets and savings than NWEP. NWEP service users’ preoccupation with reducing vulnerability perhaps reflects the fact that they were poorer than SAT service users.

## 7.5 How and Why does the Group Lending Strategy Influence Poverty Reduction?

Group lending is the cornerstone of most microfinance institutions (Huppi and Feder, 1990; Johnson and Rogaly, 1997; Armendariz de Aghion and Murdoch, 2005). It is usually perceived as an important means of getting microfinance services to the poor. Marr (2001) encapsulates the objectives of groups into two: to achieve financial and organisational sustainability. Financial sustainability is achieved by performing duties of screening, monitoring and enforcing loan repayments and organisational sustainability through self-management of the group as a social network. Most studies (Bratton, 1986; Jahangir and Zeller, 1995; Sharma and Zeller, 1997) have assessed how group liability contributes to sustainability of microfinance interventions. There is very little on how the group lending strategy directly affects poverty reduction. In spite of this, Marr (2001) states that the process through which groups are formed, their structures and how they interact cannot be assumed to have a neutral effect on poverty reduction. This study attempts to answer the above question by examining the formation, structure and dynamics of groups.

### 7.5.1: Group Formation and Structure

How groups are formed and structured mainly influences selection and retention of poor people. Studies have noted that the poor tend to be left out during group formation because they tend not to be peer-selected or because of their fear of not being able to keep up with repayments (Hulme and Mosley, 1996). NWEP group formation was based on self-selection (see Section 6.3.1) which meant that members chose people who they desired to join their groups. This gave rise to the possibility that the poorer people, who in the opinion of other group members were likely to default, will not be admitted into any groups. For SAT the problem of excluding the poorer service users during group formation was mitigated because anyone who satisfied the minimum criteria irrespective of socio-economic status could be a member of a group. In other words, potential service users did not require another member's approval to join a group. An assessment of the membership of the two interventions with respect to socio-economic status, Tables 1.3A, 1.7A and 1.10A in Appendix 1 and its accompanying discussions suggest that NWEP service users were generally of a lower socio-economic status than those of SAT. This perhaps suggests that the use of self-selection did not preclude poorer service users from joining NWEP.

With regard to retention of poorer service users SAT seemed to perform poorly. The institution was unable to retain poorer service users because of the mode of group formation. In forming groups without the use of peer selection, SAT service users claimed they had little knowledge of each other and were therefore unable to assess each other's level of risk. In order to ensure the survival of the groups and therefore continued access to loans, members said they had to purge their groups of service users who struggled with loan repayment. It can be argued that while NWEP groups screened their members during group formation, SAT group members screened their members after groups had been formed. In other words, while strict adherence to rules of expelling recalcitrant members enabled groups in SAT to get rid of people who could afford make repayments but wilfully refused to repay loans, it was also likely to result in the expulsion of poorer members who faced nascent repayment problems[71]. Interviews confirmed that there were high attrition rates among SAT groups, especially in the initial stages after the groups had been formed. For instance, members in one of the first groups of SAT were reduced from 75 to 30 in its first year of commencement. The idea that poorer service users were likely to be excluded from microfinance interventions is confirmed by Montgomery (1996), who found in a study in Bangladesh that it was usually poorer service users who were likely to encounter repayment problems and face possible expulsion from the group and ultimately from the intervention. Marr (2002) and Johnson and Copestake (2002) have observed that it was poorer service users who were likely to be expelled from microfinance interventions. Yunus' (1998) application of Gresham's law[72] to groups in microfinance interventions supports this argument: if the poor and the non-poor are put in one group or program the non-poor will always drive out the poor. This implies that if there are any expulsions from the groups in the two interventions it is the poor who are likely to be affected.

Thus the evidence of this study indicates that how groups were formed in microfinance interventions has significant implications for poverty reduction through the exclusion of poorer service users. The evidence from NWEP shows that enabling the self-formation of groups did not lead to the exclusion of poorer service users nor did it subsequently result in their expulsions from the groups[73]. Findings demonstrated that although non-self-selection of groups as found in SAT did not preclude the inclusion of the poorer service users, it later resulted in their expulsion from the

[71] Although it was not possible to obtain any official figures on dropout rates from the two interventions, interviews confirmed that dropout rates were far higher in SAT than NWEP.
[72] Gresham's law is commonly stated 'bad money drives out good'. Here Yunus refers to the tendency for one class in a group to 'crowd out' another's ability to gain from the intervention.
[73] For more on self-selection and member retention see Osmani, 1991; Rutherford, 1994.

groups. By expelling poorer service users interventions are hindered from achieving their goal of getting microfinance services to the entrepreneurial poor. The importance of interventions attracting and retaining poorer service users assumes added importance given that this study found that poorer service users experienced more benefits from the intervention than less poor ones (see section 7.2.3).

The study found that the structure of groups in the two interventions also had implications for retention of poorer service users. NWEP groups were composed of solidarity groups (sub-groups) within the Credit and Savings Associations (CSA) while SAT's consisted of only one large group known as the Trust Bank, just like the CSA (for more the structure of the groups see section 6.3.1). In NWEP, the solidarity groups were jointly liable for loan repayment among other functions. However, with regard to expulsions from the intervention the CSAs bore that responsibility. As per interviews, as long as the issues of joint liability regarding loan defaults were successfully dealt with within the solidarity group, members had low likelihood of being expelled from the CSA (and from the intervention). This is because the executive and other members of the CSAs will not get to know about the difficulties faced by service users in the solidarity groups. The implication was that in keeping any repayment infractions that could lead to expulsion within the sub-groups, the solidarity groups acted as a buffer against expulsion of their members. SAT had no such solidarity group and expulsions therefore occurred at the Trust Bank level. It was perhaps the absence of solidarity groups in SAT groups that account for its high attrition rates.

As argued previously in this section it was the poorer members of the groups who had the greatest likelihood of being kicked out of the intervention and therefore the ability of the intervention to retain service users through solidarity groups implied that the poor were more likely to be retained in the groups and thereby benefit from the interventions.

### 7.5.2 Group Decision-Making

During the interviews many service users complained about decision-making within the groups especially with regard to expulsions of members from the groups. During the interview period the researcher also noticed that attrition rates were high in groups where only the leaders took decisions regarding who to expel from groups. The researcher decided to investigate whether decision-making within groups had any effect on household and business outcomes. ‘Decision-making’ was constructed as a two-category variable: decision-making by the group as a whole (consensus) and by executives (leaders). How decisions were made in the various groups were found to influence household outcomes. Ordinal logistic regression results (see Table 3.5A in Appendix 3) showed that service users who stated that decision-making within groups was based on consensus were about 4.4 times more likely to state that the intervention had a positive effect on their households than in groups in which leaders primarily made decisions. There is no theoretical explanation for the above finding but it is probable that when leaders were in charge of decision-making, members of the group would be reluctant to apply loans to households[74]. Additionally, interviews revealed that when leaders were the major decision-makers in groups (especially in SAT)

[74] It should be borne in mind that the microfinance interventions forbade the use of loans for non-business purposes. Leaders could expel members if they found them using loans for unintended purposes.

expulsions tended to be relatively high. For instance, in one SAT group which had been reduced from 30 to 5 members, the leader claimed she alone took decisions concerning the group. As stated previously it was the poor who were likely to encounter repayment problems and therefore likely to be expelled than the less poor.

### 7.5.3 Joint Liability and Poverty Reduction

How was service users' perception of joint liability related to poverty outcomes? This was an important question because joint liability is the pivot of microfinance. Joint liability could not be measured as a variable because it applied to all groups. Service users' perception of joint liability was therefore used to assess its implications for poverty reduction. From Tables 3.5A and 3.6A in Appendix 3, service users of the two programmes who 'strongly agreed' or 'agreed' to the statement that 'group liability is the optimum way of doing microfinance' experienced less positive business outcomes compared to those who claimed group liability was not an optimum method of doing microfinance. The researcher did not have any literature to explain this relationship but it was probable that service users who had experienced relatively positive business outcomes were no longer enthused by the use of group liability to obtain access to microfinance services.

It has been argued that the use of group liability inhibits entrepreneurial growth. Some service users' income-generating activities expand to the extent that they outgrow the size of loans offered by the microfinance interventions. Such service users are unlikely to be supportive of the strategy of using joint liability as a condition for access to loans. Joint liability is premised on loans to group members being more or less equal. There is usually not a great disparity in loan sizes otherwise the joint liability function breaks down. The assumption behind microfinance is that poor people of similar socio-economic status come together to access financial services and therefore loans sizes do not usually vary greatly. The concept of being one's brother's keeper did not resonate well with some of the interviewees.

In sum, group formation methods and structure of groups affected poverty reduction mainly through their influence on the inclusion and retention of poorer service users. How decision-making was carried out in the groups affected household outcomes. Service users who stated that decision-making was through group consensus experienced more positive household outcomes than those who said leaders of the groups were in charge of decision-making. Service users who thought joint liability was not an optimum means of doing microfinance were more likely to experience more positive business outcomes.

## *7.6 Do loan matters have any implications for poverty reduction and why?*

Most microfinance interventions are organised around the provision of microloans and the two interventions studied in Nsoatre were no exception. The pivotal role of loans in most microfinance interventions suggests that among the various microfinance components, loans are likely to have the most significant implications for poverty reduction. Loan matters in this study refer to receipt, quantum, use and repayment of loans.

### 7.6.1 Timing of Loan Disbursals

From the previous chapter it was observed that the two interventions disbursed fresh loans after each group had fully repaid the previous one[75]. Loan disbursals followed that rigid pattern. This implies service users had to take loans when they became available rather than when they required them, a phenomenon also noted by Johnson and Rogaly (1997). The following statement by Johnson and Rogaly (1997:51) epitomises the characteristics of area of study: ‘in some areas where seasonality is a highly significant factor, cash is virtually unavailable during certain times of the year’. At that time of the year economic activity is at its lowest level and patronage of goods and services is virtually at a standstill. In such context, if service users did not need loans but were not willing to miss a cycle, they had to adopt complex strategies to manage loans till they require them. It was perhaps one of the reasons why service users employ loans for other purposes other than for income-generating activities. Comments from Section 6.4.1 shows the extent of complaints from service users regarding how they were affected by the mode of disbursement of loans. Most of the service users interviewed stated that receiving loans at the ‘wrong’ time affected their business negatively.

In spite of the above problems, service users experienced significant and positive household and business outcomes when they were received on schedule compared to those who did not (see Tables 3.3A and 3.4A in Appendix 3). The positive business and household outcomes as a result of receiving loans on schedule suggests that service users were capable of making profitable use of loans when they were received at the anticipated time no matter what time of the season or year it was. Receipt of

[75] With NWEP loans disbursements were further delayed because the Rural Bank had run into liquidity problems.

loans on schedule probably enables service users to make plans of how they will use the money.

### 7.6.2 Quantum of Loan

Loan sizes in NWEP were relatively smaller than those of SAT (see Table 6.5 in section 6.4.2). NWEP service users rarely got what they requested for because Nsoatreman Rural Bank was in financial distress. Both microfinance institutions used the dynamic incentive strategy[76]. This strategy had implications for the poverty reduction efforts of the interventions. Loan increments did not take into account the capability of service users to repay the now bigger loans in the unchanged 16-week repayment period. The extreme repayment difficulties most service users most claimed they faced was probably due to this situation especially when it coincided with receipt of loans during the lean season.

Interviews with SAT dropouts revealed that they taken much larger loans than they could repay from their income-generating activities leading to their inability to cope with repayment schedules. This was one of the most often cited reasons for expulsions and dropout of service users from SAT. This problem was more prevalent in SAT than NWEP because SAT service users received relatively bigger loans. By all likelihood it was the poorer service users who are more likely to drop out or get expelled from microfinance interventions as a result of taking bigger loans than they could handle.

[76] Disbursing repeated and bigger loans

Although loan size (the most recent loan amount) was not significantly correlated with business and household outcomes, a consistent pattern emerged from the analysis (see Tables 2.1A and 2.2A in Appendix 2, and Tables 3.3A, and 3.4A in Appendix 3). Service users most likely to say they had the most positive business and household outcomes were those who received between GH¢ 101 and GH¢ 300. This was followed by service users who received above GH¢ 300 and with those who had received loans up to GH¢ 100 bringing up the rear. What could account for this relationship? The study examined the relationship between last loan amount and length of time service users had been with the intervention. There was a positive and significant relationship between the most recent amount of loan received and the length of time service users had been with the interventions (see Table 2.5A in Appendix 2). It was probable that service users who received up to GH¢ 100 had not yet experienced any substantial positive effect on their households and businesses because they had not been in the intervention long enough or the amount was too small to have any meaningful effect on poverty. On the other hand, given the state of the local economy[77] and the fixed period for repayment of all loans irrespective of size, loans of over GH¢ 300 might have been larger than the service users required profitably invest in businesses. This is supported by the finding that not a single service user from SAT and NWEP had graduated from microfinance to the conventional banking system. Buckley (1997), in a study on micro-enterprises in rural areas in Africa came up with a similar finding: in some microfinance interventions the demand for credit had remained constant and there was no evidence of service users moving towards self-sufficiency or graduating from microfinance to the conventional financial institutions.

[77] Poor markets including a fluctuating economy.

### 7.6.3 Loan Use

As discussed in section 6.4.3 in the previous chapter, the majority of service users admitted using loans for other purposes when they had been expressly instructed by the microfinance institutions to apply loans only to their income-generating activities. During interviews service users did not hide information about using loans for other purposes. Information from the interviews suggests that a greater percentage than captured by the questionnaire routinely used their funds for other purposes (see Table 6.3 in section 6.3.2). Although microfinance institutions perceive fungibility as a problem in microfinance, under the livelihoods strategies approach it is viewed as a crucial strategy for the poor. Johnson and Rogaly (1997) point to the futility of microfinance institutions attempting to direct loans to a particular purpose and trying to monitor the exact use to which loans are put.

From Table 7.3, it was evident that loans were mostly used for consumption (coping with crises and seasonal fluctuations) than for accumulating assets. Indeed, the ordinal logistic regression analysis (see Tables 3.4A in Appendix 3) affirms the poverty-reducing advantages of using loans for purposes other than income-generating activities. Compared to those who used their loans for business only, service users who indicated that they used part or all of their loans for non-businesses purposes were 2.5 times more likely to experience positive household outcomes. This finding implies that using loans for non-business purposes had a significant and positive effect on households of service users. In an environment characterised by seasonal fluctuations in demand for goods and services, exercising the option of how to invest loans made more sense than automatically investing loans in business without regard to the prevailing economic conditions. Additionally, service users of the two interventions who used loans for other purposes were more likely to have contributed or increased contribution to the education of their children than those who applied their loans only to their enterprises (see Table 2.4A in Appendix 2). This relationship was statistically significant for the two interventions.

### 7.6.4: Loan Repayment

The amount and the frequency of loan repayments raised intense comments from service users. Service users of both institutions complained that repayment schedules put them under great pressure. As already stated, in a rural setting with low economic demand, the use of dynamic incentives[78] without corresponding lengthening of the repayment period put service users under intense pressure. It can be argued that it is the poorer service users who were more likely to succumb to that intense pressure and risk leaving or being kicked out of the interventions. Nteziyaremye et al. (2001) conducted a study in rural Mali, where the context (weak local markets) was similar to that of Nsoatre. The study found that the poorest members of the microfinance programme encountered the most difficulties in meeting repayment schedules. In other words they lived on the edge and the slightest mishap such as sickness, death or any other crisis in the household could result in repayment difficulties.

Important conclusions can be drawn from analysing the effect of loan matters on poverty reduction. The timing of receipt of loans influenced business outcomes. Receipt of loans during periods of low demand (lean season) affected businesses negatively. Receiving loans on schedule was another significant determinant of household and business outcomes. A pattern extricated from the quantitative data

[78] Repeated and increased loans

suggested that service users who had received up to GH¢100 and more than GH¢300 experienced less positive household and business outcomes that service users who lay in-between the two groups. Finally loan repayment schedules put immense pressure on the majority of service users. Those who dropped out or were expelled from the interventions for loan repayment difficulties were likely to be the poorer service users.

## *7.7 What are the implications of institutional savings for poverty reduction and why?*

The reasons why and how the poor save depend on their circumstances and their environment (Rutherford, 2000), but the poor do really save and they do so in one form or another for a myriad of reasons (Vonderlack and Schreiner, 2002; Johnson and Rogaly, 2005; Zeller and Sharma, 2000). The literature on savings (see Section 2.9.2) shows that the poor want savings facilities that are convenient, liquid, safe and arguably offer realistic interest rates.

From interviews with staff of the interventions, the rationale for providing savings facilities was to inculcate in service users the habit of savings and also ensure that service users had a lump sum of money for investment later on. Staff of SAT added that compulsory savings was a form of collateral for loans while NWEP workers said it enabled service users to cope with emergencies. Payment of savings deposits was convenient: savings instalments were paid alongside loan repayment. Deposits can be said to be safe: there had been no concerns or reports of anyone losing their accumulated savings. The staff of both savings facilities claimed interest was paid on savings. Service users had little knowledge about whether their savings attracted interest, but as discussed in section 6.7.1, service users were generally disinterested in interest rates or did not understand the concept. Were savings facilities of the two interventions accessible to service users? For SAT the answer was no. NWEP service users had limited access to their savings (see Section 6.5). The poor prefer savings that is easily accessible (liquid) to enable them to overcome shocks. The importance of accessibility of loans to the poor is emphasised by Wright (1999b:1) who observed that the poor basically save....'as insurance against emergencies, for social and religious obligations, for investment and for future consumption.' Therefore savings that are liquid is key to local savings mobilisation. Although the poor do not make very frequent withdrawals they appreciate the option of being able to withdraw whenever they want (ibid).

It is also important to assess the context in which the savings facilities were offered to ascertain whether savings offered benefits to service users. With reference to Tables 7.2 and 7.3 in sections 7.3 and 7.4 respectively, it was evident that service users' businesses witnessed little expansion and they invested much of their loans in reducing the vulnerability of their households. A scrutiny of the indicators of household outcomes showed that the interventions enabled the majority of service users to cope with emergencies, economic fluctuations and daily consumption requirements more than for any other purposes (see Table 7.3). The environment on the other hand was an agricultural economy characterised by seasonal fluctuations in demand and generally poor markets. The above profile of service users and their environment suggests making savings available[79] to service users will enable them to further mitigate their vulnerability.

[79] Availability could imply being able to have access to savings and repaying on short-term basis as in the regulations of NWEP

As already indicated earlier in section 6.7.2 in Chapter 6, all savings in the two interventions were effectively compulsory. Savings added to the loan repayments burden and contributed to the intense pressure faced by service users to meet repayment schedules. For instance, while SAT service users' compulsory savings of 10% effectively reduced the amount of loan available for investment, an additional savings of GH¢ 1.5 was required to be paid during each loan repayment period. With savings playing no role in enabling service users to reduce their vulnerability and instead increasing their repayment burden, it can be argued that savings had a dampening effect on the poverty level of service users. Johnson and Copestake (2002) observed in Malawi that obligatory savings and frequent loan repayments meant that little money remained for household use.

Conversely, institutional savings of the two interventions helped inculcate the habit of savings in service users[80]. However, the idea that SAT's progressive savings scheme, a voluntary scheme, had been made compulsory and a fixed amount determined by the field staff of SAT was an indication that service users of SAT were not willing to save voluntarily. Although the interventions did not seem to benefit service users much while they were in the interventions, many interviewees in SAT and NWEP were grateful because they were assured of a lump sum when they left the intervention or when the interventions folded up.

In conclusion it is evident that the savings facilities of the two interventions were geared towards the long-term objective of enabling service users to adopt a savings habit and also obtain a lump sum of money when they left the intervention. However,

[80] In emerged from the interviews that women were fond of profligate spending at the expense of their businesses and therefore forcing them to save was a way of reducing that expenditure.

the context of the study area and characteristics of service users necessitated savings facilities that would enable them to reduce their vulnerability. Johnson (1999) rightly observed that most microfinance savings schemes are not tailored to the specific requirements of service users. Vonderlack and Schreiner (2002) also acknowledge that saving facilities remain undeveloped and that few interventions have come up with concrete ways to satisfy the distinct demands for poor women for savings services in ways that will lead to poverty reduction. In sum the savings schemes of the two interventions seemed to have very little effect on poverty reduction.

## *7.8 To What Extent do Costs of Microfinance Affect Poverty Reduction?*

Cost of microfinance in the context of this study refers to what service users deemed as costs in the interviews. It should seem obvious that costs of microfinance to the service user (see section 6.7) will increase the level of poverty of service users. Costs of microfinance can also have positive influences on service users and their degree of poverty. The aim in this section is to assess the extent to which these costs in the two interventions affect poverty.

### 7.8.1 Interest Rates

Interviewees in the two interventions agreed that the interest they paid on loans were high compared to that charged by the conventional banks. Indeed interest rates on loans of the two interventions were found to be high compared to that of the conventional banks. It is important to restate that service users were knowledgeable of the total interests they paid but had poor knowledge of the concept of interest rates (see section 6.7.1). The lack of variability in interest rates in the interventions precluded the use of quantitative analysis in this study. However, considering that service users claimed to be under great pressure with regard to loan repayment (with interest payment making a substantial percentage of the repayment) it was likely that high interest rates exacerbated the already precarious situation of service users, especially the poorer ones.

Some researchers have argued that charging market interest rates engenders the productive use of loans by erasing the erroneous perception of loans as gifts or grants (Buchenau, 2003). It also prevents the hijacking of loans by the non-poor (Hulme and Mosley, 1996). From the analysis in section 6.7.1, it is doubtful if interest rates charged stimulated the use of loans for productive use since the majority of service users in both interventions used their loans for other purposes (see Table 6.2 in Section 6.3.2). With regards to excluding the non-poor, the relatively high interest rate was a disincentive to loan hijacking because enquiries revealed that most of the non-poor entrepreneurs could access credit at relatively cheaper rates from the conventional banking institutions. Thus the interest rate charged ensured that microfinance services reached poor entrepreneurs.

### 7.8.1 Charges and Deductions

As discussed in Section 6.7, charges and deductions were more prevalent in SAT than NWEP. Service users of SAT particularly complained about charges which were paid upfront and deductions that reduced the loans amount available for investment. Service users of NWEP also complained of having been misled to believe that the quantum of initial savings was related to the amount of the loans they will receive.

Much of their finances were locked up in NWEP as a result. These charges reduce the amount of loans available for investment and could detract from the capability of loans to improve the household and businesses of service users. The difference between the two interventions was that while NWEP's upfront payment occurred only once (before one joined the scheme), SAT's upfront payments occurred at the beginning of every cycle. An interview with a service user who was with both SAT and NWEP suggests what service users prefer in an intervention. This service user had decided to quit from one of the interventions and had made up her mind to leave SAT. Her explanation for quitting SAT was that they only offered a fraction of what was approved as a loan to service users.

### 7.8.2 Group Meetings

Microfinance institutions used periodic meetings as a strategy to foster group cohesion and stimulate high repayment rates among others. Service users of both interventions were unanimous that meetings had enabled them to share ideas and enhance solidarity amongst them. Studies have found that service users value these meetings for the social networks which are in turn vital for the health of income-generating activities of service users. Additionally, social networks are important instruments for combating poverty (Armendariz de Aghion and Murdoch, 2005). Meeting attendance is a useful indicator of the level of members' commitment to the group and to the intervention.

From section 6.7.3 it was evident that SAT service users' meetings on Fridays, the market day of the community, rendered members unable to take advantage of the high patronage of goods and services on that day. As stated in the previous chapter, meetings were usually delayed and further affected businesses activities of the service users. NWEP service users claimed meetings limited their ability to engage in productive activity on meeting days especially given the length of meeting times. Considering that NWEP members attended weekly meetings meant meetings came at a substantial cost to service users. Close to the end of the researcher's fieldwork period, some groups in SAT had began to experience declines in meeting attendance with the group leadership reluctant to apply sanctions due to the peculiar problems they faced. This had resulted in reduction in repayment performance which threatened the survival of the groups.

## *7.9 Conclusion*

This chapter sought to assess the poverty outcomes of the intervention components, including the capability of microfinance interventions to attract and retain poorer service users. The study examined the role of socio-demographic and business characteristics in poverty outcomes of microfinance interventions. A pattern emerged from the data indicating that compared to less poor service users, poorer service users were more likely to experience positive household and business outcomes. Poorer service users were likely to have significantly contributed or increased contribution to the education of their children. Borrowing from multiple microfinance interventions had a positive and significant effect on businesses of service users. Concerning the effect of the intervention on businesses, not much expansion or increase in business assets or direct employment opportunities seems to have occurred. The intervention enabled service users to make more profit not by increasing revenue but by reducing costs through buying in bulk at a discount, at cheaper prices and not having to buy on credit. With regard to household outcomes, the intervention had enabled service users to increase consumption. Service users scored high on measures aimed at mitigating vulnerability. The intervention had negligible effect on enabling service users to accumulate durable and long-term household assets.

Contrary to the literature, the use of self-selection did not preclude poorer service users from joining the intervention. On the other hand, non-self-selected groups had fewer poor people due to expulsions. Groups that had sub-groups retained their members more than those without them. Regarding decision-making within groups, when decision-making was consensual members were likely to experience more positive household outcomes compared to when leaders made decisions on behalf of the group. In addition service users who stated group liability was not an optimum way of doing microfinance were more likely to state they experienced more business outcomes.

Concerning loans, service users claimed loans could be disbursed to them at any time of the year. Receipt of loans during the leans season negatively affected businesses of service users. Service users however experienced more positive household and business outcomes if loans were received on schedule. Repeated loans with increments without corresponding increases in repayment period put a strain on service users' ability to honour repayment schedules and it was poorer service users who were likely to experience repayment problems and likely to be expelled from the intervention as a result. Service users who received between GH¢101 and GH¢300 experienced more positive household and business outcomes that those received more or less than that amount. Predictably service users who used their loans for other purposes experienced more positive household outcomes than those who did not.

Finally, in examining the savings facilities provided by the intervention, the study found that it did not fully satisfy the needs of service users. It was observed that the high interest rates seem to have prevented the non-poor from hijacking microfinance loans. Although, weekly or fortnightly meetings afforded service users a forum to build social networks, it detracted from their time required for other business or household activities.

# CHAPTER VIII

# CONCLUSION: SUMMARY AND RESEARCH FINDINGS

## *8.1 Introduction*

This thesis examined microfinance implementation processes and their implications for poverty from the perspective of service users. Drawing on some philosophical ideas from the Sustainable Livelihood Approach (SLA) and the Interpretive Approach, this study set out to tackle an important problem which has hitherto not been adequately investigated: How microfinance interventions are implemented and the effect of the implementation processes on poverty. To address this problem the study reviewed the relevant state of knowledge on microfinance. An analytic framework was designed which informed the formulation of the research question and sub-questions. In consonance with the interpretive approach and to have adequate control the data collection process, two microfinance interventions in Nsoatre, a rural community in Ghana whose language, customs and livelihoods the researcher had extensive knowledge of , were selected for the study.

This concluding chapter first summarises the thesis by briefly reviewing the research problem, the research approach and methods applied in the thesis. The chapter then presents and discusses the main and significant findings of the study. The chapter concludes with a discussion of the limitations of the thesis and presents areas for further research.

## *8.2 Restatement of Research Problem and Questions*

Microfinance has been perceived as an important poverty alleviation tool and on the basis of that the microfinance industry has phenomenally expanded based on the assumption that poor people's access to financial services will enable them work their way out of poverty. The extent to which microfinance reduces poverty has been extensively investigated with most studies relying on impact assessments. Impact assessment of microfinance interventions tends to assess microfinance interventions' outcomes, paying scant attention to type of services provided and the implementation processes which brought about these outcomes in the first place. Impact assessments of microfinance interventions as a result share an implicit assumption that microfinance interventions, the context in which they operate and the people who access these services are homogeneous. It is no wonder that the literature abounds with conflicting impacts of microfinance interventions. Microfinance institutions differ in orientation, services that they provide and modes of service implementation and therefore outcomes and impacts may differ.

Many studies have examined microfinance from the perceptive of the microfinance institutions, concentrating on institutional sustainability. For instance, in assessing repayment performance such studies will ask 'how do microfinance interventions engender high loan repayment?' From the viewpoint of service users the above question will be rephrased as 'what strategies do service users employ to ensure loan repayment?' Microfinance from the perceptive of service users has received little attention in the microfinance literature. In researching microfinance we ought to ask ourselves the question 'whose reality counts?'[81] Since the service users are the

[81] A phrase/question borrowed from Robert Chambers

consumers of microfinance services, it is imperative that their perspective of microfinance is adequately researched and documented.

Based on the perceived limitation of the literature on microfinance, the study proposed the following research question in anticipation that its answer will contribute to filling a lacuna in the state of knowledge in microfinance research:

**How do implementation processes affect poverty reduction by microfinance in Rural Ghana?**

The above question was broken down in to two main questions: (a) How are microfinance interventions implemented and how do they affect activities within the intervention? (b) How do microfinance implementation processes affect poverty reduction? The sub-questions under the two main questions are listed in section 3.3. Chapter 6 tackled the first main question regarding the implementation processes while chapter 7 answered the second main question concerning the effect of the implementation processes on poverty reduction.

## *8.3 Summary of the Thesis*

The first chapter of the thesis presented the research problem, objectives of the study, justification of the study, and scope and limitations of the study. To keep the logical flow of the thesis the research questions were reproduced in the introduction even though they were formulated after the design of the analytic framework. The chapter concluded with an outline of the thesis.

Chapter II reviewed the state of knowledge of microfinance relevant in addressing the research problem. It began by disaggregating the microfinance concept and delineating what constituted microfinance. In trying to understand the changes in the conceptualisation of microfinance over time, the chapter drew parallels between changes in development thinking or paradigms and microfinance. After that some classic impact assessment studies were reviewed to ascertain the extent to which they incorporated implementation processes and views of service users. Most of the studies reviewed hardly captured viewpoints of service users and paid scant attention to context or the implementation processes. The chapter then reviewed studies on the various components of microfinance interventions such as groups, loans and non-financial service. Although most of these studies were comprehensive they failed to take a contextual perspective of the microfinance interventions. In addition, because of the fragmentary nature of these studies, the linkages between the various components of microfinance interventions were not explicated. It was evident there was a gap in the literature concerning studies on intervention processes and their implications for poverty reduction. In effect studies that examine microfinance from the perspective of users and investigate the effect of the implementation process on poverty are required.

The analytic framework of the study, which can be conceptualised as the blueprint of the thesis was presented in Chapter III. The chapter presented and analysed the approaches used in the thesis. The Sustainable Livelihood Approach (SLA) was introduced and how it was applied justified. It is important to state that none of the SLA frameworks was applied in this study. However, the philosophical ideas underpinning the SLA informed the formulation of the research questions, the data gathering work and analysis of the thesis. The SLA's basic tenet as an analytic framework is that development interventions need to be understood from the perspective of people rather than projects. In analysis, SLA emphasises the conceptualisation of development interventions as contextually embedded projects. The SLA also informed the analysis of this study enabling the explanation of findings within the context of the study area. The interpretive approach was introduced to guide the selection of the study area and also the analysis of data. The research questions were raised at this point in the study. In answering the research question, the study adopted a pragmatist approach so that no research method was chosen *a priori*. Using both quantitative and qualitative methods, a therefore a mixed methods approach, questions were answered based on the method that was deemed most appropriate.

A brief background of Ghana, its national financial regulatory framework, especially sections relevant to microfinance, was introduced in Chapter IV. Included in Chapter IV were backgrounds of the two microfinance institutions and the area of study. The regulatory framework of Ghana was presented to enhance the understanding of the context in which microfinance institutions operate. The study presented the background of Sinapi Aba Trust (SAT) and Nsoatreman Women's Empowerment Programme (NWEP) showing their mode of operations, brief sketch of their organisational structures and the services they provide. The study presented the background of the area of study in this chapter and this was especially important because of the study's emphasis on context. The study reviewed the financial arrangements existing in Nsoatre, the environment, the economy and a brief exposition of the cultural practices especially those relevant to finance and economic matters.

The fieldwork activities and data analysis strategies are presented in Chapter V. The thesis employed interviews and questionnaires to gather data on service users of two microfinance interventions, SAT and NWEP. To ensure the quantitative data reflected the context in which the service users were embedded, interviews were first conducted and a preliminary analysis of the information gathered informed the construction of the questionnaire. The researcher also relied on documents and personal observation to complement the data. The researcher deliberately chose a rural community whose language and customs he was well acquainted with. This ensured that the researcher could conduct the all qualitative interviews, translation and transcriptions by himself. This ensured that the fidelity of the data was not distorted. In total 22 service users and 4 members of staff of the two interventions were interviewed while the researcher-administered questionnaire was used to collect data from 100 service users. Three research assistants were employed to assist in the administration of the questionnaire. Stringent checks were performed to ensure that the data collected was valid and reliable. Due to the smallness of the sample size, great efforts were expended at ensuring that the data set was without any missing cases or data.

The interviews were translated and transcribed in the field by the researcher. Preliminary analysis was performed in the field to indentify variables that could be included in the questionnaire. The completed questionnaires were rigorously checked and rechecked for any errors and inconsistencies. Any problems found were investigated and rectified. The quantitative data was entered into SPSS and analysed using frequency distributions, cross-tabulations and ordinal logistic regression. For the dependent variables used in the multiple regression analysis, two composite indicators were constructed from measures of households and businesses. The qualitative data were analysed according to the various themes (components of the interventions). The study used the mixed methods approach in the analysis of the data.

A summary of the findings of the study in Chapters VI and VII are presented below. The research questions formulated in section 3.3 are individually addressed. The significant and insightful findings that add to the microfinance literature are presented for each question.  Chapter VIII concludes with a summary of the thesis including its methodological and empirical contributions to knowledge.

## *8.4 Summary of Significant Findings*

The main objective of this thesis was to assess the implementation processes of the microfinance interventions and their implications for poverty reduction from the perspective of service users. This section presents the significant findings of the various questions raised in section 3.3. It also acknowledges any contributions the study has made to the state of knowledge on microfinance. Finally the section explicates the broader implications of the thesis.

### 8.4.1 How are microfinance interventions implemented and how do they affect activities within the intervention?

The above question was the first of the two main questions asked. Under the above research question six sub-questions were asked. The first sub-question under the above question was: To what extent are contextual factors and perceptions of service users taken into account in the design of microfinance interventions and what are the implications? For both interventions there were no attempts at involving service users in the design of the interventions. The implication was that the interventions were not tailored to the circumstances of service users and the environment in which they operated (see section 6.2). The mismatch between the intervention and the circumstances of the service users is apparent throughout the thesis.

Microfinance literature is silent on how microfinance interventions decide on how and which services to provide and the extent to which contextual factors and potential service users are involved in the formulation of interventions. Most microfinance institutions adopt interventions that have proven successful elsewhere without considering the suitability of the context in which it is being introduced.

The second sub-question was: Are there any differences between microfinance institutions' intended and actual implementation practices and what are their ramifications? It is important to note that an implementation gap, the difference between the intended and what is actually implemented is not always negative if, for instance, the interventions are adapted to suit the circumstances of the service users. The formal information of microfinance implementation processes and what happened in the reality in the field was quite fascinating and revealing. Concerning the formation of groups, SAT's documents claimed the Trust Groups were further divided into sub-groups but these sub-groups did not exist (see section 6.3.1). NWEP also claimed its groups were self-formed but this was not found to be wholly true. It was true that the solidarity groups were self-formed but when the staff arbitrarily combined groups to form CSAs then that element of allowing groups to self-form was diluted. The importance of these sub-groups has been expatiated in sections 6.3.1 and

7.5.1. Self-selection into groups is perceived as the cornerstone of group formation. The implication of the implementation gap in group formation is that service users of differing risk and socio-economic levels might be in one group. Such a situation will mean that it is the poorer service users who are likely to be expelled (see section 7.5.1).

Another implementation gap identified was that SAT field staff claimed service users were issued with passbooks that contained records of all savings they had made. Service users on the other hand stated they had not been issued with any passbooks. It was evident that service users had not been issued with passbooks because no service user interviewed knew how much money they had accumulated with the intervention. For instance, a service user who had left SAT bitterly complained about being given far less money that she envisaged she had accumulated. Such situations seem to erode the trust service users had in the intervention because some service users opined that it was a deliberate attempt by SAT to cheat them.

In NWEP service users claimed they were informed that the initial amount they received would depend on the initial savings that they accumulated. However all service users received the same amount of loans irrespective of how much each service user saved. In another instance the NWEP manual claimed that service users could access emergency loans from a fund controlled by the CSA. In reality the fund was ultimately controlled by the members of staff of the intervention who had to give consent before a member could access the loan. Such authorisations were seldom given which meant that service users had limited access to the emergency loans.

SAT charges training fees at the beginning of every cycle. Service users claimed that SAT failed to give them any training beyond the first cycle but yet charged them for training during every cycle. Service users of SAT complained about having to pay for a service they did not receive. However an implementation gap that SAT service users talked favourably about was the change in the repayment schedule from weekly to fortnightly. Service users who were with SAT during this change explained that it reduced the repayment pressure that they encountered. It is also worthy to note that service users usually do not know what the design of the intervention was.

The assessment of the implementation gap in the two interventions though not in-depth is an eye-opener in microfinance research. There is very little literature on implementation gaps in microfinance. What makes this knowledge pertinent when incorporated into research especially impact assessment is that it could be influential in explaining observed findings.

The third sub-question was: what are the roles and implications of microfinance in group formation and dynamics? Regarding group formation in SAT it was found that the institution did not permit the self-selection of members into groups. Interested people just put their names down and when they had enough it became a group. The explanation for the observed method of group formation was that it mitigated covariant risks and boosted repayment rates. This meant that risky and non-risky members could be put together in a group. In the process of ensuring that risky members were eliminated from groups, poorer service users who were more likely to experience nascent repayment problems were likely to be expelled as well. In NWEP solidarity groups were self-formed but not in the CSAs (see section 6.3.1). With joint liability gradually shifting from the solidarity groups to the CSAs, there were complaints of unequal loan sizes which constituted a threat to the joint liability strategy and hence to the sustainability of the groups. The solidarity groups were also found to be buffers against expulsions[82] (see section 6.3.1).

In section 6.3.2, the study found that peer monitoring was virtually non-existent because there was widespread knowledge among service users that loans were routinely used for purposes other than income-generating activities. Service users of the two interventions therefore did not need to monitor their peers to ensure that loans were used for income-generating activities. The finding of this study on peer monitoring contrasts with mainstream perceptions of peer monitoring in the literature. Peer monitoring occupies a prominent role in microfinance literature as an important mechanism to mitigate ex-ante moral hazard, that is, the use of loans in a manner which jeopardises chances of loan repayment. Marr (2002) found evidence of limited peer monitoring in microfinance interventions in Peru and attributed this to the high cost associated with monitoring loan use and the cost of sharing such information due to loyalty or the risk in being labelled an informer. The findings of this thesis confirm Marr’s observation that there is a limited amount of peer monitoring in microfinance interventions. However, while Marr acknowledges the importance of peer monitoring as essential for good repayment performance, the findings of this study suggests otherwise: peer monitoring is not essential for loan repayment. In the absence of peer monitoring other aspects of group lending such as group formation and peer pressure become very important instruments in ensuring high repayment performance. This finding constitutes a significant empirical contribution to the body of knowledge on

[82] The solidarity groups were gradually ceding their function of joint liability to the CSAs (see section 6.3.1)

microfinance. In addition this finding emphasises the centrality of group formation and group pressure in ensuring loan repayment.

A general observation that emerged was that groups in the two interventions were found to enjoy some degree of autonomy but within boundaries defined by the microfinance institutions. Staff only interfered albeit surreptitiously when there were concerns of repayment problems. In a country where corruption was ubiquitous it was surprising that the study found no evidence of corruption in the implementation process. This is not to claim there was no corruption but if there was any it was likely to be well hidden or minimal.

In conclusion, it has become clear that to explain group behaviour under joint liability schemes it is important to be knowledgeable of other components of the interventions and the context in which they operate. Group formation emerged as a strong determinant of subsequent activities of the group including dropout rates. This study has added to the literature on group activities, specifically on peer monitoring and the dynamics involved in ensuring the sustainability of groups in a rural area.

The next question was: How do microfinance institutions' loan activities affect service users' loan management? Loan disbursals and repayment schedules followed a regimented pattern. This mode of loan disbursal meant that loans could be disbursed at any time of the year, implying that service users took loans when they became available rather than when they required them (see section 6.4.1). Service users complained of the negative consequences of taking loans during unfavourable periods such as during the lean season.

Regarding loan use, service users used loans as they deemed fit: for income-generating activities as well as for household consumption. When service users used their loans for business purposes it was usually to reduce input costs by mainly buying stock in bulk at a discount; buying during periods when stocks were cheaper, for example during the harvest season; and buying cheaper with cash instead of on credit.

The majority of service users complained incessantly about the pressure that they encountered during loan repayment. It was observed that the microfinance institutions adopted the dynamic incentive strategy (see section 6.4.2). The automatic loan increments were without reference to business growth and repayment capabilities of service users. Loans were increased without corresponding increase in repayment periods. Finally, poor markets and seasonal variations in economic activity contributed immensely to the repayment pressure and tension experienced by service users. Service users routinely accepted loan increments because of social pressure to be perceived as doing well in business. It is evident that the repayment pressure experienced by service users was genuine and that a combination of factors contributed to this situation. In such situations it was the poorer service users who were likely to suffer adverse effects and get expelled from the intervention.

The finding on repayment pressure is an example of sensitivity to the concerns of service users, an issue usually neglected when microfinance is studied from the institutional sustainability perspective. In addition, the stance of this study that findings need to be contextually interpreted led to a better understanding and appreciation of the problems encountered by the service users. This represents a break from the usual research process on microfinance.

The penultimate sub-question on implementation processes was: To what extent are non-financial services relevant to service users? Both interventions provided some non-financial services to their users. For NWEP non-financial services constituted an important part of the intervention (see section 6.6). Like other components of the interventions, the design of non-financial services did not include inputs from service users. Interviews showed that SAT and NWEP service users appreciated the provision of education on disease prevention more than training on business management and the like. However, during the administration of the questionnaire, few service users in the two interventions could recall specific non-financial services they had benefited from. Considering the context and background of the mostly women service users (poor markets, small businesses, economic fluctuations, mostly non-literate, taking care of households) it is not difficult to envisage the irrelevance of business education that emphasises record-keeping, business growth and general business management.

The last question was: How do service users perceive costs of microfinance and why? Costs of microfinance to service users include interest rates, charges and deductions, and other transaction costs. Interest rates in the two interventions were quoted in flat rates (see section 6.7.1) which translates to about 95% and 150% for SAT and NWEP respectively. Service users stated the interest rates were satisfactory and their point of comparison was with interest rates of money lenders. However moneylenders hardly lent for income-generating purposes. Service users' satisfaction with interest rates is thrown in doubt for two important reasons. First the lack of transparency in interest rate charges, that is charging flat interest rates and additional charges (in the case of SAT) which increased the effective interest rate made it difficult for service users who are mostly illiterate to make informed decisions on interest rates. Second, the service users can be described as financially illiterate because it was found that service users did not understand the concept of interest rates (see section 6.7.1). Nevertheless, the high level of interest rates is certain to contribute to the repayment pressure service users profess to endure. As iterated, it is the poorer service users who were likely to suffer and even experience expulsion as a result. The literature shows that perception has shifted from service users not being able to afford markets interest rates to the entrepreneurial poor making enough profits to afford market interest rates. Although this study did not assess how affordable interest rates were, it found that service users were financially illiterate and in addition could hardly comprehend the very complicated interest rate landscapes of the microfinance interventions. The prevailing situation makes it difficult for service users to make informed decisions about the effect of interest rates on their businesses. In conclusion considering that service users operate in poor markets and also routinely used loans for non-business purposes, the high interest rates might have contributed to the immense repayment pressure most service users experienced.

Charges and deductions were higher in SAT than NWEP. Perhaps it was to make up for SAT's lower interest rate compared to NWEP. For details of charges and deduction made by SAT see section 6.7.2. There were almost unanimous complaints against the various charges and deductions in SAT. Service users were particularly unhappy with the reduced amount of loans offered them after the deductions had been made. NWEP service users on the other hand received the exact amount of money that they had applied for as loan. Whereas service users were described as financially illiterate, they knew how much loan that had been approved for them and the amount they received.

Another cost of doing microfinance was service users having to meet periodically to make loan repayments and for other activities. Findings from section 6.7.3, there was concern for SAT's members' choice of Friday as a meeting day. Friday was coincidentally the community's 'market day', an important day for traders. Meetings on these days were clearly inappropriate because service users were anxious to trade on that day and were reluctant to attend meetings. Observations revealed that service users were obviously reluctant to attend meetings and therefore meetings were usually poorly attended. Staff of SAT explained that meeting on Friday was the choice of the service users. This situation clearly underscored the importance of collaboration between the microfinance institution and service users in redressing problems when they crop up.

### 8.4.2 How Do Microfinance Implementation Processes affect Poverty Reduction?

The above was the second main question and under it six sub-questions were answered. The first sub-question was: Do characteristics of service users and their businesses influence poverty reduction and why? The finding of this study suggests that poorer service users were more likely to benefit from the intervention. They were also more likely to have contributed or increased their contribution to the education of their children. This finding is contrary to the dominant perception in the literature that the less poor benefit from microfinance interventions than the poor. The reason for such a finding is probably because this study relied on service users own perception of the effects of the intervention. For more explanation on the relationship between levels of poverty and poverty outcomes see section 7.4.3.

The study found that service users who borrowed from other microfinance institutions were more likely to experience beneficial business outcomes. These service users were also likely to experience consistent expansion in business and business assets. It is difficult to determine whether their businesses improved after they took other loans or they took the loans after their businesses had begun to improve. The latter is more plausible because in microfinance literature taking multiple loans is usually perceived as a strategy of coping with loan repayment. Poor people take on new loans to enable them to pay off previous loans. If these service users in this study took additional loans because their businesses showed signs of improvement then other factors such as entrepreneurial ability could account for the initial improvement in business.

The second sub-question was: What are the effects of microfinance interventions on businesses and households? Microfinance interventions had initially caused business sizes to consistently expand. After that initial expansion the usual occurrence was that businesses expanded and contracted in tandem with seasonal fluctuations in economic activity. Microfinance had negligible effect on direct employment generation. When there was the need for additional labour, service users were likely to use household members who were usually unpaid. Given the constraints to business expansion service users make profits by reducing input cost. Microfinance enabled service users to reduce input costs by buying inputs in greater quantities. Service users especially food vendors bought large quantities of food items for storage during the harvest season when it was relatively cheap. For more on effects of microfinance in businesses see section 7.3. From the above it is clear that seasonal fluctuations in economic activity played an important role in the businesses of service users.

Regarding the effect of microfinance intervention on households, the intervention had contributed very little in enabling service users to acquire household and long-term assets. However the interventions had enabled households to increase their consumption but more importantly it seems to have enabled service users to reduce their vulnerability. On a comparative basis, SAT service users reduced vulnerability and accumulated more assets than NWEP service users. The findings on the effect of microfinance on businesses and households were generally consistent with the literature on microfinance. In sum, this study provides useful insights into the underlying reasons regarding how microfinance interventions influence households and businesses of service users. For example, the use of contextual explanations helps in understanding why microfinance interventions affected household and businesses in the ways that they did.

The third sub-question was: Do group formation and dynamics influence poverty reduction? The study found that group formation and structure were important determinants of subsequent occurrences within the intervention, dropout rates. Incidentally it was poorer service users who were more likely to drop out or be expelled from the intervention.

Another significant finding in the study was the effect of decision-making within groups on household outcomes and dropout rates. Logistic regression results showed (see section 7.5.2) that when decision-making was based on group consensus members were more likely to experience positive household outcomes compared to when leaders were responsible for decision-making in the group. In addition there were more expulsions in groups where leaders where the decision makers. No reason could readily be adduced to explain the effect of decision-making on household outcomes and this will therefore require further investigation.

It can be argued that self-formation of groups is likely to reduce the level of heterogeneity (socio-economic and risk) within groups and thereby reduce the probability of leaders taking decisions for the group. Evidence for the argument comes from the data. Unlike NWEP, SAT groups were not formed through self-selection and from Table 2A in Appendix 2, it is seen that SAT was more leader-driven in decision-making than NWEP. Groups within NWEP had experienced fewer expulsions compared to SAT.

The last significant finding on groups was that service users who claimed group liability was not an optimum method of doing microfinance experienced more positive business outcomes compared to those who were of the opinion that joint liability  was an optimum way of doing microfinance. Does this suggest that group liability people who do well in business feel inhibited by joint liability? This seems plausible because joint liability has never been the choice of service users but rather a mechanism used by microfinance institutions as a form of collateral. The idea that service users should be responsible for the failings or debts of their peers did not resonate well with the service users. Grameen Bank has now abolished joint liability (Reggiani, 2005), while in a study in Bangladesh and Uganda 76% and 87% of service users respectively wanted to be independent borrowers (WWB, 2003). It also makes sense that service users who do not perform so well in business will want assistance from more successful entrepreneurs when it came to loan repayment.

The effect of groups and joint liability on poverty reduction is an area very little studied in microfinance. Again the findings buttress the need to study the entire intervention to understand and explain the ensuing relationships and activities. For instance, how groups were initially formed explain how leaders come to dominate decision-making in groups. The finding on groups also suggests that joint liability is inimical to business development. It is important to reiterate that these are initial findings of an unexplored area in microfinance and will certainly benefit from further research.

The next sub-question asked was: How do loan matters affect poverty reduction? Loan disbursals could be delayed for many reasons but service users experienced significant and positive household and business outcomes when loans were received on schedule. Analysis of the effect of loan use revealed an important result: employing loans for non-business purposes was associated with positive and significant effects on households (see section 7.6.3). Additionally, service users who used their loans for other purposes were more likely to have significantly contributed or increased contribution to the education of their children.

Concerning amount of loans, service users whose last loan was between GH¢ 101 and GH¢300 saw the most positive household and business outcomes followed by those who received over GH¢300, with service users receiving less than GH¢101 bringing up the rear (see Tables 2.1A, 2.2A, 3.3A and 3.4A). For explanation about this observation see section 7.6.2. According to Littlefield, Murdoch and Hashemi (2003), impact intensifies as service users stay longer in a given programme. This study however suggests otherwise: the impacts tend to reduce with time. It is noteworthy that there was no evidence of service users having successfully graduated from microfinance to a conventional banking institution. Poor markets, tight loan repayment schedules and women's other competing commitments such as taking care of the household constitute impediments to graduation from microfinance interventions.

The next sub-question was: Do savings facilities of microfinance institutions enable service users to reduce poverty? The savings schemes of the two interventions were essentially unidirectional processes. Service users contributed to the scheme but did not have access to their savings[83]. It can be concluded that the savings schemes had very little direct effect on poverty because the schemes were not tailored to meet the specific requirements of service users. For instance, savings schemes did not incorporate voluntary savings so that service users could save more or less depending on economic fluctuations and also savings made available to service users when they were economically hard-up during the lean season. The lack of development of savings facilities is well documented in the microfinance literature (Johnson, 1999; Vonderlack and Schriener, 2002). Service users' lack of knowledge on some aspects of the savings schemes was also revealed: SAT members did not know how much they had accumulated as savings; and service users in the two interventions did not know whether their savings attracted any interest. In spite of the above mentioned situation, a majority of service users stated they were satisfied with the savings

[83] NWEP manual says service users could borrow from their group schemes but they hardly ever had access to the funds.

scheme (see Table 6.11) because it forced[84] them to accumulate lump sums of money. The bottom line is that if savings could only be accessed after service users had left the intervention (when they were no longer service users) then technically the savings schemes cannot be said to have benefited service users.

The last sub-question was: What is the relationship between the costs of microfinance and poverty reduction? As stated in section 7.8, costs of microfinance refer to costs associated with service users' access to financial services. Interest rates were high compared to that of the orthodox financial institutions. Given the mismatch between modes of loan disbursal and repayment,[85] and the poor and fluctuating markets, high interest rates could have played a significant role in the intense pressure service users complained about regarding loan repayment. The study also found that the high interest rates prevented the hijacking of loans by the non-poor. However, contrary to what is espoused by the literature, the high interest rates did not engender the productive use (business) of credit.

Group meetings had become a significant cost to service users especially SAT's. For SAT service users it interfered with business on the most important day of the week in Nsoatre: the market day. NWEP service users, on the other hand, complained about the frequency of the meetings (weekly).

After addressing the two main question and sub-questions, the study attempted to answer, in a brief summary, the overall research question: **How do implementation**

[84] An interviewee of SAT commented that women were especially noted for profligate spending to the detriment of their businesses so forcing them to save was a good way curbing that habit.
[85] Loans being disbursed at any time of the year; loan increments not being accompanied by corresponding increase in repayment period; and the inflexibility in loan repayments.

**processes affect poverty reduction by microfinance in rural Ghana?** Turning to how the microfinance interventions were implemented, the overarching finding of study was that the interventions were designed without inputs from service users or the people and without reference to the environment and conditions of the study area. This resulting outcome was a general mismatch between the implementation processes and context in which the interventions were introduced. For example, loan disbursement and repayment schedules were regimented and did not take into consideration the fluctuating economic conditions prevalent in the area of study. The effect of the non-participation of service users in the formulation of the designs of the interventions resonates throughout the findings of this study. Poverty was measured in terms of household and business outcomes, and the capability of the interventions to attract and retain poorer people (see sections 5.3.3, 7.3, 7.4 and Appendix 4.4A).

Regarding the implementation of the various components of the interventions, the study found that modes of group formation and structure had important effects on the retention of poorer service users in groups (see sections 6.3 and 7.5). Groups that were self-formed were more capable of retaining poorer service users that those that were not. Contrary to literature, self-formation of groups did not exclude poorer people from the groups. The presence of sub-groups within groups tended to aid the retention of service users but the effect waned over time (see section 7.5.1). Decision-making within groups had implications for household outcomes and expulsion. When decision were made in groups based on consensus rather than by leaders of the group, had favourable effect on households and reduced expulsions (see section 7.5.2).

How loans schemes were implemented had poverty implications for service users. When loans were received on schedule they had positive effects on household and business of service users (see section 7.6.1). Findings on the effect of loan size on household and businesses indicated that initially positive outcomes that accrued to service users increased with increasing loan size and after a certain threshold as the loans became larger the gains began to decrease (see section 7.6.2). Using loans for non-business purposes was associated with more beneficial household outcomes but did not affect service users' loan repayment efforts (see section 7.6.3). Service users experienced severe pressure associated with loan repayment and it was the poorer service users who were likely to suffer expulsion. The study found that dynamic incentives strategy was used without corresponding increase in repayment period or an assessment of the capability of service users to repay loans. The study argued that it was the poorer service users who were likely to face repayment problems and get expelled from the intervention.

Finally, given the circumstances of the service users and the savings schemes being operated, the study argued that savings schemes were not very beneficial to the users. Service users did not have access to savings facilities while they were with the intervention and the burden of contribution could have contributed the severe loan repayment pressure they experienced (see section 7.7).

The section concludes with a discussion of broad observations extracted from the main findings. First, service users' lack of knowledge was evident throughout the assessment of the implementation process. For instance, service users had very little knowledge about interest rates (savings and loans), non-financial services and for

SAT service users, how much they had saved. The lack of knowledge could stem from three factors: (1) the high level of financial illiteracy among service users, (2) certain aspects of the intervention were irrelevant to service users and they therefore not worth remembering and (3) staff of the intervention failed to provide information to service users at all or failed to deliver information accurately.

The second observation was the importance of group formation to the microfinance interventions. How groups were formed was found to have implications for other components of the intervention. Group formation had effects on dropout rates, decision-making in groups and on household outcomes. The study found that in the absence of peer monitoring, group formation became an important determinant of loan repayment performance.

The final observation relates to the lack of evidence of corruption in the two interventions. This is surprising considering that corrupt practices are very rampant in the country and also perceived as normal practice in most workplaces. In Ghana it is routine practice that to obtain a loan one has to present a ‘gift’.

## *8.5 Methodological Implications of the Study*

The study has made some contributions to understanding implementation processes and their effect on poverty in rural areas. The findings of this thesis established that understandings of microfinance interventions cannot be divorced from the context in which they operate. In examining microfinance interventions from the perspective of service users the findings of this thesis suggests a reappraisal of the conceptualisation of microfinance interventions, especially in rural areas. This section presents the methodological contributions of the study.

First, in studying microfinance from the perspective of the users, this study focussed on understanding what service users appreciate and are concerned about in microfinance interventions. For example, the study investigated service users' complaints about repayment pressure, an issue many studies have glossed over. The study is also guided by the interpretive approach to ensure that the findings truly reflect what service users intended to convey. In addition, the researcher chose a study area in which he had sufficient knowledge of the context.

Second, the study ensured that the quantitative data was contextually embedded by constructing the questionnaire based information from interviews. Most microfinance studies have used one method of analysis and on the few occasions where a mixed methods approach has been used data has been collected independent of each other.

Third, studies that have investigated the components of microfinance interventions have been limited to individual components (such as group lending, loans and savings) have resulted in incomplete explanation and understanding of the interventions (see Stiglitz, 1990; Aghion, 1999; Marr, 2002, Ahlin and Townsend, 2007; Al-Azzam and Sarangi, 2007). This study has demonstrated that a holistic study of interventions enhances understanding of the individual components. For instance, it was the findings on the use of loans that shed light on the irrelevance of peer monitoring. Loans issues and group activities have typically been studied separately (see above citations).

## *8.6 Limitations of the Study*

It should be stated that one of the aims of this study was to ensure that findings could be generalised to rural communities in Ghana. However, due to the lack of resources only two microfinance interventions were studied in a single locale and therefore results can strictly be generalisable only to service users in these interventions. However, because most microfinance institutions in Ghana have adopted versions of the Grameen model as seen in SAT and NWEP, there is a strong likelihood that the findings of this study will be applicable to other interventions in rural communities in the forest belt of Ghana.

Another limitation of the study was the smallness of the sample sizes for the two interventions. During the preliminary fieldwork the researcher had no independent means of checking the number of service users in the interventions and had to rely on verbal assurances of the adequacy of the population. After it was evident that regression analysis could not be conducted independently on each intervention, the two samples were carefully combined by using the same questionnaire and weighting the NWEP sample. These strategies mitigated the problem of dealing with a small sample size.

Finally the study was limited by the lack of access to data on repayment, expulsion and dropout rates on the two microfinance interventions. No concrete figures could be obtained on the above. The study relied on information obtained during interviews and documents from the leaders of the groups. Record-keeping was however not very good. Information on overall repayment rates would have enabled a clearer picture of the interventions to emerge. From the literature there is a tendency for microfinance institutions to closely guard such information especially regarding how such figures are computed (Armendariz de Aghion and Morduch, 2005). The study was not overly affected by the lack of such data because the main aim of the study was to understand microfinance from the perspective of the users for which information was readily available.

## *8.7 Areas for Further Research*

Comprehensive and contextual assessments of the processes of microfinance interventions from the perspective of service users seem to be novel method of researching microfinance interventions. Further studies that employ larger sample sizes and encompass wider and different geographical, cultural and economic aspects are required.

Specifically studies into how microfinance interventions are designed are required. This study has indicated that there is very little literature on what factors are considered in the design of microfinance interventions. Investigations into implementation gaps should be incorporated into microfinance research, especially impact assessments because these could be explanatory factors for findings.

The effect of group activities on poverty outcomes is an innovation in microfinance research and will require further studies. For example, how decision-making influences poverty outcomes could not be adequately explained in this study. This could form the research problem for other studies. In addition this study demonstrated the importance of group formation in microfinance. This constitutes a significant discovery in the microfinance literature and requires more rigorous research if it is to inform policy.  Findings of this study suggest that successful service users do not appreciate the use of joint liability in microfinance. Further studies are required to confirm this finding given its centrality in microfinance.

Another issue that requires further investigation is the changes in significance and coefficients of some variables in the different ordinal logistic regression models. As observed in Appendix 3, the period of time (in cycles) that service users had spent in the microfinance had a significant effect on business in the model with variables relating to service users' personal and business characteristics, and variables related to loans (Table 3.3A in Appendix 3). In another model, however, with variables relating to service users personal and business characteristics and variables on group matters, the same variable showed a significant effect on household outcomes (see Table 3.5A in Appendix 3). Additionally the coefficients indicating the effect of borrowing from other microfinance interventions on business outcomes tended to change in the different models. Investigation of why these occur might reveal interesting answers.

To conclude, further studies that are sensitive to service users and amplify their concerns and appreciations are required. Poor people are usually of the impression that interventions are doing them a favour so they seldom complain about the interventions and therefore studies that pick up the faintest of murmurings of service users are required to make interventions suitable for service users.

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# APPENDICES

## *Appendix 1: Socio-demographic Background and Business Characteristics of Service Users*

Appendix 1 presents the analysis for a selection of socio-demographic and business characteristics of service users. Socio-demographic information of respondents is vital in a study that emphasises the issue of context. The variables analysed and discussed in this section form an important resource for answering the research questions and also employed as control variables in the ordinal logistic regression analysis. Frequency distributions of the variables are presented in tables after the discussion.

**1.1A Gender**

Most microfinance interventions are mostly of constituted of women and SAT and NWEP were no exceptions. NWEP exclusively targeted women, while SAT did not discriminate between genders. However, the criteria employed by SAT for inclusion into the intervention ensured that the groups were overwhelmingly women. SAT targeted the entrepreneurial poor who were already engaged in an economic activity. In Nsoatre women constitute the majority of people engaged in micro-enterprises (i.e. food vending, agro-processing, trading in agricultural produce, small shops etc). According to staff of SAT, most of the education such as that on menopause and preventing diseases in children were aimed at women. Given the above reasons and as shown in Table 1.1A it is therefore not surprising that out of SAT's sample size of 60 only 3 were male representing about 5%.

**1.2A Age**

Age was converted into a four-category ordinal variable (see Table 1.2A). A categorical variable rather than a continuous one was more appropriate because women were not willing to reveal their ages or did not know their exact ages. However, they were willing to give estimates of how old they were, which suited the categories well. Service users of SAT service users were on the average older than NWEP's. Table 1.2A shows that 66.7% of service users of SAT were aged above 40 years compared to 42.5% for NWEP.

**1.3 A Marital Status**

Table 1.3A showed that married service users constituted the majority in both SAT (71.7%) and NWEP (62.5%). It is interesting to note that the number of divorcees (35%) in NWEP was significantly higher than that of SAT (10%) and perhaps that of the general population. The literature highlights the vulnerability of one-parent households (especially female-headed households) and the fact that such households are more likely to be poorer than two-parent households.

To throw more light the characteristics of the marital status of service users, a cross-tabular analysis between marital status and age (see Table 1.4A) was conducted. Among NWEP service users, divorcees tended to be younger than married women, 71.4% of divorcees were under 40 years compared to 52% of those married. For SAT all six divorced respondents (100%) were aged above 40 years as apposed 64.1% of married respondents.

In cross-tabulating marital status with number of children, Table 1.5A revealed that in the NWEP intervention 78.6% of divorcees had three or more children compared to 72% for married women. The observation in the SAT intervention was quite similar to that of NWEP: 100% of SAT's divorcee respondents and 86% of married respondents had more than three children. In sum, a picture of young single service users (mostly women) with relatively many children emerges (especially from NWEP) from the forgoing analysis and indicates the extent of vulnerability of these service users.

**1.4A Level of Education**

Level of education was included as a five-category nominal variable in Table 1.6A. The study expected that better educated service users would make better use of microfinance and thus show more positive household and business outcomes. In Ghana, primary education refers to 6 years of education; middle school, 10 years[86]; secondary school, between 12 and 17 years of education[87]; and post-secondary refers educational qualifications above secondary school (for example teacher training college and university education). The three males in SAT's sample on the average had higher levels of education compared to their female counterparts: one had secondary education while the other two possessed post-secondary education. As shown in Table 1.6A, NWEP respondents had a slightly higher percentage of people who had some level of education 82.5%% compared to 76.7% for SAT. The category with the highest frequency in both groups was middle school level of education. Again, NWEP respondents had a higher percentage (62.5%) than SAT's (48.3%).

**1.5A Occupation of Spouse**

The main criterion for selection of service users into the two interventions was that they should be engaged in an income generating activity (non-farm enterprise). Although the smallness of initial loans and other strategies helped to some extent to exclude the non-poor, the members of the intervention were not likely to be homogenous in terms of socio-economic status. The questionnaire used the occupation of the spouses of service users as a means of gaining more information about the socio-economic status of service users. In predominantly patriarchal societies such as the study area, the socio-economic status of the household is primarily determined by the husband's occupation (that is if there is a spouse). The occupation of the husband is a robust variable for determining the socio-economic status of the household because it is not likely to be influenced by the effect of the microfinance intervention. Service users without spouses (husbands) were grouped in a 'not applicable' category.

The study hypothesised that households of higher socio-economic status were more likely to use microcredit for entrepreneurial activities as opposed to poorer households who might have more competing uses for microloans. For instance, compared to poorer households, less poor families will be less inclined to use loans for payment of children's fees because the spouse (usually the husband) will cater for such expenses. Ideally, microcredit is thought to yield the most return if invested in microenterprises. This study therefore posited that microfinance interventions will

[86] Middle school category includes Junior Secondary School (JSS) students which is 9 years of education. The new educational reform was introduced in 1987.
[87] Secondary school education comprises of Senior Secondary School (SSS), Sixth form and normal form five secondary education.

have more positive effects on households and businesses of service users from a higher socio-economic status than a lower one.

The various categories of this ‘occupation of spouse[88]’ variable were constructed (see Table 1.7A) based on income sources, quantum and regularity of income flows. Government employees were usually considered relatively well paid, their incomes were not subject to seasonal fluctuations and they enjoyed greater job security. Shopkeepers, traders and artisans come after government employees. Even though their incomes were to a certain degree subject to seasonal fluctuations, the effect is not as great as the lesser categories. Other employees refer to people who were employed by private individuals in occupations such as driving and shop-keeping. They are usually not well paid and have no job security because these forms of employment are informal contractual arrangements in which such employees are subject to dismissal at any given time. Farmers, especially food crop farmers are usually considered the poorest. The category ‘not applicable’ refers to respondents (mostly women) who do not have spouses. Only one spouse of a respondent was in the unemployed category. It is worth noting that most of the people in the other occupational categories could be engaged in part-time farming activities. The categorisations emphasise the main occupation of spouses.

In combining three categories that reflected the least poor (government employees, other employees and traders/self employed), the spouses of SAT respondents constituted 31.6% while NWEP made up 25% (see Table 1.7A). This observation adds to the evidence that SAT respondents, compared to NWEP’s were less poor. Characteristic of a rural community, farmers constituted the category with most respondents, 40% and 37.5% for SAT and NWEP respectively. The poorer categories (farmers, unemployed and not applicable), constituted 75% in NWEP and 68.4% in SAT

**1.6A Number of Dependent Children**

Most microfinance service users were women and in developing countries the responsibility of household chores primarily falls on women. It was expected that resources (including time) required to take care of dependent children will detract from resources required for business activities. Table 1.8A shows that in the two microfinance institutions, majority of service users (about 67%) of both interventions had between 3 and 6 children. Only 15% and 7.5% of SAT and NWEP service users had 7 or more dependent children.

**1.7A Being Indigenous**

The question required that respondents state whether they were indigenous to the area of study. Being indigenous implies being affiliated or belonging to a clan in the community. Indigenous service users are more likely to benefit from social support network that exist within clans. These traditional social support networks are very important because there are no public social support systems. Non-indigenous service users are unlikely to have access such an extensive support network which may translate into financial/business support and higher patronage of business output. In

[88] For more information on the various categories of occupations and incomes see Canagarajah, S., Newman, C. and Bhattamishra, R. (2001). Non-farm income, gender, and inequality: evidence from rural Ghana and Uganda. *Food Policy*, *26(4):* 405-420.

total, 81.7% from SAT and 87.5% of NWEP (see Table 1.9A) service users indicated that they were indigenous to the area of study.

**1.8A Types of Business**

The types of micro-enterprises in which the service users engaged is an indicator of the amount of capital required to establish the business, the quantum of revenue, profitability and ultimately the degree of impact of the intervention on the household. For instance, consider two micro-entrepreneurs: one who retails a basket of oranges every evening worth GH¢5 and another who operates a retailing shop and making an average of GH¢50 per day. These two are likely to be faced differing capital requirements and level of profit. The latter service user is likely to make more profit and be better-off. The categories were therefore constructed to highlight these differences. It is important to note that the 'type of business' variable refers to the main type of businesses which were supported by the microfinance institution. The categorisation of this variable was primarily informed by the researcher's extensive prior knowledge of the study area and reinforced by field observation.

From Table 1.10A, food vendors who constituted 52.5% and 38.3% in NWEP and SAT respectively were those whose businesses usually required the least amount of capital to establish. Food vending is usually a part-time job, with business being conducted mostly during mornings and evenings. Shopkeepers and other traders[89] constituted 58.4% and 40% of SAT and NWEP service users respectively. These two categories of service users (shopkeepers and other traders) required relatively larger sums of money for their business activities and were likely to be less poor. SAT had no artisans but had two service users who mentioned farming as their business supported by microcredit. It is baffling why farmers were included in SAT programme when during interviews with staff they claim they did not do business with farmers. Follow-up effort efforts failed to yield any information on the reason for inclusion of farmers in SAT. NWEP, on the other hand had three artisans.

**1.9A Number of Business**

Diversification of economic activities is regarded as an important livelihood strategy. To reduce vulnerability the poor endeavour to diversify their income sources. It is therefore expected that service users with multiple business ventures will have more positive business outcomes. The study measured the number of economic activities that service users were engaged in. From Table 1.11A, it is clear that there was not much difference between the percentage distribution of the number of economic activities performed by service users in SAT and NWEP. A little over half of service users in both SAT (53.3%) and NWEP (52.5%) were engaged in only one economic activity. For service users with two occupations, NWEP registered 45%, while those in SAT constituted 41.7%. Very few of the service users were engaged in three occupations. Being engaged in farming activities was not considered as an economic activity here because almost all service users were engaged in some form of farming activity.

[89] The 'other traders' category is made up of traders in agricultural products such as maize, plantain, yam and vegetables.

### 1.10A Amount of Time Spent on Business

The amount of time service users spent on their business was employed as a proxy for the size of business. This variable was purposely included to serve as a control variable for the importance of the business to the household of the service user. From observations and enquiries in the field, service users with small businesses such as morning food vendors spent about 4 hours in the evening preparing food to be sold in the morning. In the morning they spend the same about the same amount of time selling their food. To such people their business was considered part-time. There were others who spent most of their time on their business—example shopkeepers and dressmakers. From Table 1.12A, majority of the service users in the two interventions worked over 8 hours per day: 68.3% and 57.5% for SAT and NWEP service users respectively.

### 1.11A Borrowing from other Sources

The study asked service users if they borrowed from other microfinance interventions. From Table 1.13A only 4 service users each from SAT and NWEP said they borrowed from other microfinance interventions. The variable was included as a control variable since loans from other interventions could confound the results of ordinal logistic regression.

**Table 1.1A: Gender**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | female | 57 | 95.0 | 95.0 | 95.0 |
| | | male | 3 | 5.0 | 5.0 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | female | 40 | 100.0 | 100.0 | 100.0 |

Source: Fieldwork Data, 2007/08

**Table 1.2A: Age of Service User**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | Up to 30 | 9 | 15.0 | 15.0 | 15.0 |
| | | 31 - 40 | 11 | 18.3 | 18.3 | 33.3 |
| | | 41 - 50 | 30 | 50.0 | 50.0 | 83.3 |
| | | 51 and above | 10 | 16.7 | 16.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | Up to 30 | 5 | 12.5 | 12.5 | 12.5 |
| | | 31 - 40 | 18 | 45.0 | 45.0 | 57.5 |
| | | 41 - 50 | 14 | 35.0 | 35.0 | 92.5 |
| | | 51 and above | 3 | 7.5 | 7.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.3A: Marital Status**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | single | 7 | 11.7 | 11.7 | 11.7 |
| | | married | 43 | 71.7 | 71.7 | 83.3 |
| | | divorced | 6 | 10.0 | 10.0 | 93.3 |
| | | widow/widower | 4 | 6.7 | 6.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | married | 25 | 62.5 | 62.5 | 62.5 |
| | | divorced | 14 | 35.0 | 35.0 | 97.5 |
| | | widow/widower | 1 | 2.5 | 2.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.4A: Age of Service User by Marital Status**

| Name of Intervention | | | | Age of service user | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | Up to 30 | 31 - 40 | 41 - 50 | 51 and above | Up to 30 |
| SAT | Marital status | single | Count | 3 | 2 | 2 | 0 | 7 |
| | | | % within Marital status | 42.9% | 28.6% | 28.6% | .0% | 100.0% |
| | | married | Count | 6 | 9 | 21 | 7 | 43 |
| | | | % within Marital status | 14.0% | 20.9% | 48.8% | 16.3% | 100.0% |
| | | divorced | Count | 0 | 0 | 5 | 1 | 6 |
| | | | % within Marital status | .0% | .0% | 83.3% | 16.7% | 100.0% |
| | | widow/ widower | Count | 0 | 0 | 2 | 2 | 4 |
| | | | % within Marital status | .0% | .0% | 50.0% | 50.0% | 100.0% |
| | Total | | Count | 9 | 11 | 30 | 10 | 60 |
| | | | % within Marital status | 15.0% | 18.3% | 50.0% | 16.7% | 100.0% |
| NWEP | Marital status | married | Count | 3 | 10 | 9 | 3 | 25 |
| | | | % within Marital status | 12.0% | 40.0% | 36.0% | 12.0% | 100.0% |
| | | divorced | Count | 2 | 8 | 4 | 0 | 14 |
| | | | % within Marital status | 14.3% | 57.1% | 28.6% | .0% | 100.0% |
| | | widow/ widower | Count | 0 | 0 | 1 | 0 | 1 |
| | | | % within Marital status | .0% | .0% | 100.0 % | .0% | 100.0% |
| | Total | | Count | 5 | 18 | 14 | 3 | 40 |
| | | | % within Marital status | 12.5% | 45.0% | 35.0% | 7.5% | 100.0% |

Source: Fieldwork Data, 2007/08

**Table 1.5A: Number of Children by Marital Status**

| Name of Intervention | | | | Number of children | | | Total |
|---|---|---|---|---|---|---|---|
| | | | | 0 - 2 | 3-6 | 7 and above | 0 - 2 |
| SAT | Marital status | single | Count | 5 | 2 | 0 | 7 |
| | | | % within Marital status | 71.4% | 28.6% | .0% | 100.0% |
| | | married | Count | 6 | 31 | 6 | 43 |
| | | | % within Marital status | 14.0% | 72.1% | 14.0% | 100.0% |
| | | divorced | Count | 0 | 5 | 1 | 6 |
| | | | % within Marital status | .0% | 83.3% | 16.7% | 100.0% |
| | | widow/ widower | Count | 0 | 2 | 2 | 4 |
| | | | % within Marital status | .0% | 50.0% | 50.0% | 100.0% |
| | Total | | Count | 11 | 40 | 9 | 60 |
| | | | % within Marital status | 18.3% | 66.7% | 15.0% | 100.0% |
| NWEP | Marital status | married | Count | 7 | 15 | 3 | 25 |
| | | | % within Marital status | 28.0% | 60.0% | 12.0% | 100.0% |
| | | divorced | Count | 3 | 11 | 0 | 14 |
| | | | % within Marital status | 21.4% | 78.6% | .0% | 100.0% |
| | | widow/ widower | Count | 0 | 1 | 0 | 1 |
| | | | % within Marital status | .0% | 100.0% | .0% | 100.0% |
| | Total | | Count | 10 | 27 | 3 | 40 |
| | | | % within Marital status | 25.0% | 67.5% | 7.5% | 100.0% |

Source: Fieldwork Data, 2007/08

**Table 1.6A: Level of Education**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | none | 14 | 23.3 | 23.3 | 23.3 |
| | | primary | 11 | 18.3 | 18.3 | 41.7 |
| | | middle school | 29 | 48.3 | 48.3 | 90.0 |
| | | secondary | 4 | 6.7 | 6.7 | 96.7 |
| | | post-secondary | 2 | 3.3 | 3.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | none | 7 | 17.5 | 17.5 | 17.5 |
| | | primary | 6 | 15.0 | 15.0 | 32.5 |
| | | middle school | 25 | 62.5 | 62.5 | 95.0 |
| | | secondary | 2 | 5.0 | 5.0 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.7A: Occupation of Spouse**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | farmers | 24 | 40.0 | 40.0 | 40.0 |
| | | trader/self employed | 8 | 13.3 | 13.3 | 53.3 |
| | | other employees | 5 | 8.3 | 8.3 | 61.7 |
| | | Gov't employees | 6 | 10.0 | 10.0 | 71.7 |
| | | not applicable | 16 | 26.7 | 26.7 | 98.3 |
| | | unemployed | 1 | 1.7 | 1.7 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | farmers | 15 | 37.5 | 37.5 | 37.5 |
| | | trader/self employed | 6 | 15.0 | 15.0 | 52.5 |
| | | other employees | 2 | 5.0 | 5.0 | 57.5 |
| | | Gov't employees | 2 | 5.0 | 5.0 | 62.5 |
| | | not applicable | 15 | 37.5 | 37.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.8A: Number of Children**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | 0 - 2 | 11 | 18.3 | 18.3 | 18.3 |
| | | 3-6 | 40 | 66.7 | 66.7 | 85.0 |
| | | 7and above | 9 | 15.0 | 15.0 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | 0 - 2 | 10 | 25.0 | 25.0 | 25.0 |
| | | 3-6 | 27 | 67.5 | 67.5 | 92.5 |
| | | 7and above | 3 | 7.5 | 7.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.9A: Being an Indigene**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 49 | 81.7 | 81.7 | 81.7 |
| | | no | 11 | 18.3 | 18.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 35 | 87.5 | 87.5 | 87.5 |
| | | no | 5 | 12.5 | 12.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.10A: Type of Business**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | food seller | 23 | 38.3 | 38.3 | 38.3 |
| | | shopkeeper | 10 | 16.7 | 16.7 | 55.0 |
| | | other traders | 25 | 41.7 | 41.7 | 96.7 |
| | | farming | 2 | 3.3 | 3.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | food seller | 21 | 52.5 | 52.5 | 52.5 |
| | | artisan | 3 | 7.5 | 7.5 | 60.0 |
| | | shopkeeper | 7 | 17.5 | 17.5 | 77.5 |
| | | other traders | 9 | 22.5 | 22.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.11A: Number of Businesses**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | one | 32 | 53.3 | 53.3 | 53.3 |
| | | two | 25 | 41.7 | 41.7 | 95.0 |
| | | more than 2 | 3 | 5.0 | 5.0 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | one | 21 | 52.5 | 52.5 | 52.5 |
| | | two | 18 | 45.0 | 45.0 | 97.5 |
| | | more than 2 | 1 | 2.5 | 2.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.12A: Amount of Time Spent on Business**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | up to 8 hrs | 19 | 31.7 | 31.7 | 31.7 |
| | | over 8 hrs | 41 | 68.3 | 68.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | up to 8 hrs | 17 | 42.5 | 42.5 | 42.5 |
| | | over 8 hrs | 23 | 57.5 | 57.5 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

**Table 1.13A: Do You Borrow from Other Sources?**

| Name of Intervention | | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|---|
| SAT | Valid | yes | 4 | 6.7 | 6.7 | 6.7 |
| | | no | 56 | 93.3 | 93.3 | 100.0 |
| | | Total | 60 | 100.0 | 100.0 | |
| NWEP | Valid | yes | 4 | 10.0 | 10.0 | 10.0 |
| | | no | 36 | 90.0 | 90.0 | 100.0 |
| | | Total | 40 | 100.0 | 100.0 | |

Source: Fieldwork Data, 2007/08

## *Appendix 2: Business and Household Outcomes: Cross-Tabular Analysis*

Appendix 2 presents cross-tabular data and its interpretation. The independent variables were cross-tabulated with the two dependent variables: household and business outcomes. In addition, significant relationships in the cross-tabulations between the independent variables and the dependent variable that could not be aggregated namely ‘contributed or increased contribution to the education of children’ was presented. The discussion that follows is grouped under: socio-demographic characteristics; nature of business; group and loan issues. The relationships that were statistically significant were flagged. Appendix 2 ends with a discussion on the effect of microfinance interventions on children’s education. The results of the cross-tabular analyses are presented in Tables 2.1A to 2.5A after the interpretation of the data.

## 2.1A Socio-demographic Characteristics

The study assessed the relationship between the socio-economic characteristics of service users and businesses and households outcomes. The variables below were employed in the cross-tabular analysis. Preliminary cross-tabular analysis showed that some variables had too few cases in a cell to make the analysis meaningful. These variables were carefully recategorised.

### 2.1.1A Age of Service User

Table 2.1A showed that majority of service users were between 31 and 50 years. Service users between the ages of 31 and 50 showed higher likelihood of experiencing positive household outcomes compared to the two other categories. There was no discernable pattern with respect to business outcomes (see Table 2.2A). However, the age of service users did not significantly influence businesses and households of service users.

### 2.1.2A Marital Status

Marital status is an example of a variable that was recategorised. Service users of SAT who were single reported that the intervention had a more positive effect on their businesses compared to those who were married (see Table 2.2A). This relationship was statistically significant. Over 47% of single service users compared to about 16% of married service users claimed that microfinance interventions had a very positive effect on their businesses. Only about 6% of single service users compared to about 30% of married service users said the SAT intervention had no effect on their businesses. The same trend was evident concerning the effect of marital status on households as shown in Table 2.1A. By inspection, SAT service users who were single were more likely to experience positive household outcomes, although this relationship was not statistically significant. With regard to NWEP, married women reported more positive effects on their businesses than single women (see Table 2.2A). From Table 2.1A, it was evident that there was no relationship between marital status and household outcomes. Relationships between marital status and household and business outcomes in NWEP were not statistically significant.

### 2.1.3A Occupation of Spouse

As previously noted in section 2.1.1A, SAT service users who were single reported more positive business outcomes. This finding is confirmed by the variable ‘occupation of spouse’ in Tables 2.1A and 2.2A. Service users who were single (‘not applicable’ category) were likely to state (41.2%) that the intervention had a consistently positive effect (very much) on their businesses compared to service users whose spouses were in non-farming occupations (16.7%) and those whose spouses were farmers (20.0%). A similar trend is witnessed with respect to the relationship between spouse’s occupation and household outcomes. All relationships discussed above were however not statistically significant.

In NWEP (see Tables 2.1A and 2.2A), compared to service users whose spouses were in non-farming occupations, service users who were single (not applicable) and those whose spouses were farmers were more likely to state that the intervention had a more positive on their households but this effect was not significant. Related to business outcomes, service users who were single and those whose spouses were farmers were also more likely to report more benefits from the intervention than those whose spouses were non-farmers, although this was not statistically significant.

### 2.1.4A Level of Education

From Tables 2.1A and 2.2A, service users with higher levels of education were more likely to report more positive business and household outcomes. In both NWEP and SAT service users who had been educated up to primary and middle school level reported that their businesses and households had benefitted from the interventions more than those with no education. For NWEP there was a positive and significant relationship between level of education and household outcomes.

### 2.1.5A Number of Children

Regarding the effect of the number of children on business and household outcomes of microfinance interventions, the data indicated that service users who had fewer children were more likely to report more positive outcomes. The findings were quite similar for both NWEP and SAT. The relationships between number of children, and business and household outcomes of interventions were not significant (see Tables 2.1A and 2.2A).

### 2.1.6A Being Indigenous

Being indigenous to the rural area was hypothesised to have a more positive effect on business. The explanation for the indigenous variable can be found in section 1.7A in Appendix 1. Indigenous people could use their extensive social networks to their advantage in business. This was supported by the cross-tabulations albeit non-significant. SAT’s indigenous service users were more likely to report positive outcomes on the businesses and households compared to non-indigenes (see Table 2.1A and 2.2A). With regard to NWEP, Tables 2.1A and 2.2A showed that there were no discernable relationships between service users’ indigenous status and business and household outcomes.

## 2.2A Business Characteristics

The study examined the effect of business characteristics of service users on household and businesses of service users. This was based on four variables: whether service users borrowed from other microfinance institutions apart from the microfinance in question; the number of businesses; main business and the amount of time the service users spent on their businesses.

### 2.2.1A Borrowing from other Sources

The fact that service users borrowed from other sources (other microfinance institutions) had a very statistically significant effect on businesses of service users of both interventions. From Table 2.2A, service users of the two interventions (75%) who borrowed from other sources were more likely to indicate that the intervention had a consistently positive effect (very much) on their businesses  compared to those who relied on one microfinance intervention only for financial services (average 20%). There was no discernable relationship between borrowing from other sources and household outcomes in the two interventions (see Table 2.1A).

### 2.2.2A Number of Businesses

The number of businesses a service user was engaged in was cross-tabulated with business and household outcomes of microfinance interventions. From Table 2.2A, service users of SAT with two or more businesses had a higher likelihood of experiencing positive and significant business outcomes. The same finding was observed within NWEP but the relationship was not significant. Household outcomes of the number of businesses service users were mixed and not significant (see Table 2.1A). While for SAT service users with two or more businesses reported more favourable effects on the household, those of NWEP pointed to the opposite direction: service users with only one business were more likely to report better household outcomes compared with those with two or more businesses.

### 2.2.3A Principal Business

Service users were classified according to the main type of business they engaged in. In both interventions, food sellers and shopkeepers stated that the interventions had more positive effect on their businesses compared to the other groups (see Table 2.2A).  The relationship between main type of business and households outcomes showed no discernable pattern (see Table 2.1A). However, the main business of service users was not significantly related to household and businesses outcomes.

### 2.2.4A Time Spent on Business

As a proxy for the importance of the business to the financial lives to service users, time spent on business was cross-tabulated with household and business outcomes. The relationship between ‘time spent on business’ and business outcomes was somewhat positive but not statistically significant (Table 2.2A). However, compared to those who worked up to 8 hours, NWEP and SAT service users who worked above 8 hours a day were more likely to state that the interventions had beneficial effect on their businesses. With reference to the effect of time spent in business on households, the findings were mixed and not significant (see Table 2.1A). NWEP service users who worked more than 8 hours on their businesses were more likely to say the intervention had a positive effect on their households compared to those who worked less than 8 hours per day. In SAT the relationship between time spent on business and household outcomes was unclear.

#### 2.2.5A Length of Time with Intervention

The period of time that a service user had been with an intervention was measured in terms of the number of cycles members had gone through. The number of cycles that service users experienced in NWEP had statistically significant effects on households and businesses. NWEP service users who had been with the intervention between 4 to 9 cycles were more likely to say the intervention had a positive influence on their businesses and households compared to the other two categories (see Tables 2.1A and 2.2A). Members who had been with NWEP for over 9 cycles were the second among the three categories to state that the intervention was beneficial to their household and businesses. Responses from SAT members showed a statistically significant negative relationship between business outcomes and the length of time they had spent with the intervention (see Table 2.2A). There was no discernable relationship between time spent in an intervention and household outcomes among SAT service users.

## 2.3A Group and Loan Issues

Variables concerned with group and loan matters were cross-tabulated with the dependent variables: household and business outcomes.

#### 2.3.1A Group Decision-Making

Groups have to make many decisions including whether to expel a member, report member to intervention staff or make payment on behalf of defaulting member. The study assessed whether how these decisions were made in the groups had any effects on households and businesses of service users. About 82% and 93% of respondents of SAT and NWEP respectively claimed decisions were reached through group consensus (see Table 2.1A). Service users of the two interventions who claimed decisions were arrived through group consensus were more likely to state that the intervention benefited their businesses compared to those who claimed that leaders of the groups were mainly responsible for decision-making. In SAT service users who stated group decision-making was the norm in their groups experienced better household outcomes and the opposite was true in NWEP. None of the relationships were however significant.

#### 2.3.2A Amount of Last Loan

The study assessed whether the size of a loan was related to household and business outcomes. The majority of SAT service users (55%) had received over GH¢ 300 in the most recent cycle while the largest percentage of NWEP service users (47.5%) received GH¢100 or less (see Tables 2.1A and 2.2A). Service users of both interventions who received between GH¢101 and GH¢300 in their most recent cycle had higher probabilities than the other two groups of experiencing positive business outcomes. Members who received over GH¢300 were next category to experience positive business outcomes. Regarding household outcomes service users of both interventions who received over GH¢100 reported more beneficial outcomes than those who received up to GH¢100 in their most recent cycle (see Table 2.1A). None of the relationships was however statistically significant.

### 2.3.3A Time of Loan Receipt

The study differentiated between loans received on schedule and loans received at a convenient period. It was hypothesised that the receipt of loans on schedule and at a convenient period will positively affect households and businesses of service users. Receiving loans on schedule as a variable referred to the timely disbursal of loans, while receiving loans at a convenient time meant receiving loans at a period when it had a maximum utility to service users. SAT service users were more likely to receive loans on schedule (60%) compared to NWEP (20%). Receiving loans on schedule was more beneficial to businesses and households for the two interventions but not statistically significant.

From Tables 2.1A and 2.2A, SAT members (75%) were more likely to say they received their loans at a convenient period than NWEP service users (50%). Service users of both interventions who claimed they received their loans at a convenient time were more likely to experience less beneficial business outcomes compared to those who claimed not to have received loans at a convenient time. Receipt of loans at a convenient time was associated with more positive household outcomes in both interventions. Receipt of loans at a convenient period was not significantly correlated with household and business outcomes.

### 2.3.4A Loan Management

The manner in which loans were managed was expected to be important predictors of business and household outcomes. First the study determined whether the use of loans for non- business purposes influenced businesses and households of service users. Majority of service users of SAT (51.7%) and NWEP (67.5%) stated they used part or all of their loans for other purposes. With SAT there was no discernable correlation between use of loans on one hand and household and business outcomes on the other (see Tables 2.1A and 2.2A). NWEP members who used loans for non-business purposes had a higher likelihood of experiencing significant positive business outcomes. Although NWEP service users who used loans for non-business experienced more positive household outcomes, the relationship was not significant (see Table 2.1A).

Majority of service users of both interventions (SAT: 51.7; NWEP: 72.5%) stated that they did not keep their business finances separate from other household finances. There was no clear evidence that keeping all household finances together or otherwise had any effect on business outcomes (see Table 2.2A). However, in Table 2.1A SAT service users who did not separate their business dealings from other household finances experienced more positive and significant household outcomes than those who did otherwise. The effect for NWEP service users was similar to that of SAT's but not statistically significant.

### 2.3.5A Repayment Difficulties

Repayment difficulty refers to service users' missing at least one repayment schedule. Concerning loan repayment, 88.3% of SAT and 82.5% of NWEP service users responded they had not experienced any repayment difficulties. As expected, service users SAT who stated they did not encounter loan repayment difficulties were also likely to report more positive business and household outcomes than those who said they experienced repayment difficulties. The effect of repayment difficulties on household and business outcomes in SAT was not statistically significant. The opposite effect to the above was witnessed among NWEP service users: those who claimed to experience repayment difficulties were more likely to report significantly positive business outcomes than service users who did stated that they did not encounter repayment difficulties. Similarly NWEP service users who faced repayment difficulties were more likely to experience positive household outcomes, although not statistically significant.

## 2.5A Microfinance and Children's Education

The extent to which the intervention enabled service users to contribute or increase contribution to their children's education is a dependent variable which could not be included in the construction of the composite 'household outcome' variable. This was because some of the service users did not have children and therefore the variable had one additional category—not applicable—more than the other variables included in the constructing the household composite variable. For reasons of parsimony only predictor variables that significantly affected 'contributed or increased contribution to children's education' variable were reported.

Only marital status was significantly related to the 'contributed or increased contribution to the education of children' variable. Among service users in SAT and NWEP with children, single service users compared to those who were married were more likely to state that they contributed or increased contribution to the education of their children as a result of being with the intervention (see Table 2.3A below).

**Table 2.1A: Cross-tabular Analysis of Effect on Household by Socio-Demographic Characteristics and Other Variables**

| Variables | Categories | Sample Size (%) | Not At All (%) | Somewhat (%) | Very Much (%) |
|---|---|---|---|---|---|
| **Age of Service User** | Up to 30 | 15.0 (12.5) | 22.2 (60.0) | 66.7 (40.0) | 11.1 (0.0) |
| **SAT** | 31-50 | 68.3 (80.0) | 26.8 (37.5) | 51.2 (56.3) | 22.0 (6.3) |
| **(NWEP)** $^{\tau}$ | 51 & above | 16.7 (7.5) | 30.0 (33.3) | 50.0 (66.7) | 20.0 (0.0) |
| **Marital Status SAT** | Single | 28.3 (37.5) | 11.8 (40.0) | 58.8 (53.3) | 29.4 (6.7 ) |
| **(NWEP)** | Married | 71.7 (62.5) | 32.6 (40.0) | 51.2 (56.0) | 16.3 (4.0) |
| **Occupation of Spouse** | Not Applicable | 28.3 (40.0) | 17.6 (37.5) | 52.9 (56.3) | 29.4 (6.3) |
| **SAT** | Non-Farming | 30.0 (20.0) | 33.3 (50.0) | 50.0 (50.0) | 16.7 (0.0) |
| **(NWEP)** | Farming | 41.7 (40.0) | 28.0 (37.5) | 56.0 (56.3) | 16.0 (6.3) |
| **Level of Education** | Secondary & above | 10.0 (5.0) | 33.3 (50.0) | 33.3 (0.0) | 33.3 (50.0) |
| **SAT** | Prim. And Middle | 66.7 (77.5) | 22.5 (32.3) | 57.5 (64.5) | 20.0 (3.2) |
| **(NWEP)*** | None | 23.3 (17.5) | 35.7 (71.4) | 50.0 (28.6) | 14.3 (0.0) |
| **Number of Children** | 0-2 | 18.3 (25.0) | 18.2 (40.0) | 45.5 (50.0) | 36.4 (10.0) |
| **SAT** | 3 to 6 | 66.7 (67.5) | 25.0 (44.4) | 60.0 (51.9) | 15.0 (3.7) |
| **(NWEP)** | 7 & above | 15.0 (7.5) | 44.4 (0.0) | 33.3 (100) | 22.2 (0.0) |
| **Being an Indigene SAT** | Yes | 81.7 (87.5) | 24.5 (40.0) | 53.1 (54.3) | 22.4 (5.7) |
| **(NWEP)** | No | 18.3 (12.5) | 36.4 (40.0) | 54.5 (60.0) | 9.1 (0.0) |
| **Borrowed from Other Sources SAT** | Yes | 6.7 (10.0) | 50.0 (50.0) | 50.0 (25.0) | 0.0 (25.0) |
| **(NWEP)** | No | 93.3 (90.0) | 25.0 (38.9) | 53.6 (58.3) | 21.4 (2.8) |
| **No. of Businesses SAT** | One | 53.3 (52.5) | 31.3 (23.8) | 46.9 (71.4) | 21.9 (4.8) |
| **(NWEP)** | Two or more | 46.7 (47.5) | 21.4 (57.9) | 60.7 (36.8) | 17.9 (5.3) |
| **Main Business** | Food Sellers | 38.3 (52.5) | 17.4 (52.4) | 56.5 (47.6) | 26.1 (0.0) |
| **SAT** | Artisans | 0.0 (7.5) | 0.0 (0.0) | 0.0 (100.0) | 0.0 (0.0) |
| **(NWEP)** | Shopkeepers | 16.7 (17.5) | 40.0 (14.3) | 30.0 (71.4) | 30.0 (14.3) |
| | Other Traders | 41.7 (22.5) | 28.0 (44.4) | 60.0 (44.4) | 12.0 (11.1) |
| | Farming | 3.3 (0.0) | 50.0 (0.0) | 50.0 (0.0) | 0.0 (0.0) |
| **Time Spent on Bus. SAT** | Up to 8 hours | 31.7 (42.5) | 15.8 (58.8) | 73.7 (41.2) | 10.5 (0.0) |
| **(NWEP)** | Above 8 hours | 68.3 (57.5) | 31.7 (26.1) | 43.9 (65.2) | 24.4 (8.7) |
| **No. of Cycles in Scheme** | 1-3 cycles | 15.0 (55.0) | 22.2 (59.1) | 66.7 (40.9) | 11.1 (0.0) |
| **SAT** | 4-9 cycles | 48.3 (7.5) | 20.7 (0.0) | 51.7 (66.7) | 27.6 (33.3) |
| **(NWEP)*** | Over 9 cycles | 36.7 (37.5) | 36.4 (20.0) | 50.0 (73.3) | 13.6 (6.7) |
| **How Decisions Made within group SAT** | Group Consensus | 81.7 (92.5) | 22.4 (40.5) | 55.1 (54.1) | 22.4 (5.4) |
| **(NWEP)** | Leaders | 18.3 (7.5) | 45.5 (33.3) | 45.5 (66.7) | 9.1 (0.0) |

**Table 2.1A continued**

| Variables | Categories | Sample Size (%) | Not At All (%) | Somewhat (%) | Very Much (%) |
|---|---|---|---|---|---|
| **Amount of Last Loan SAT (NWEP)** | Up to 100 | 3.3 (47.5) | 50.0 (63.2) | 50.0 (36.8) | 0.0 (0.0) |
| | 101-300 | 41.7 (42.5) | 24.0 (17.6) | 52.0 (76.5) | 24.0 (5.9) |
| | 301 and above | 55.0 (10.0) | 27.3 (25.0) | 54.5 (50.0) | 18.2 (25.0) |
| **Received Loans on Schedule SAT (NWEP)** | Yes | 60.0 (20.0) | 25.0 (25.0) | 52.8 (62.5) | 22.2 (12.5) |
| | No | 40.0 (80.0) | 29.2 (43.8) | 54.2 (53.1) | 16.7 (3.1) |
| **Received Loan at Convenient Time SAT (NWEP)** | Yes | 75.0 (50.0) | 16.7 (40.0) | 55.6 (45.0) | 27.8 (15.0) |
| | No | 25.0 (50.0) | 26.7 (45.0) | 46.7 (55.0) | 26.7 (0.0) |
| **Use of Loan for Other Purposes SAT (NWEP)** | Yes | 51.7 (67.5) | 29.0 (29.6) | 45.2 (63.0) | 25.8 (7.4) |
| | No | 48.3 (32.5) | 24.1 (61.5) | 62.1 (38.5) | 13.8 (0.0) |
| **Keep Funds Separate from Household Finance SAT* (NWEP)** | Yes | 48.3 (27.5) | 27.3 (27.3) | 69.0 (63.6) | 3.4 (9.4) |
| | No | 51.7 (72.5) | 25.8 (44.8) | 38.7 (51.7) | 35.5 (3.4) |
| **Encounter Difficulty in Loan Repayment SAT (NWEP)** | Yes | 11.7 (17.5) | 57.1 (28.6) | 14.3 (57.1) | 28.6 (14.3) |
| | No | 88.3 (82.5) | 22.6 (42.4) | 58.5 (54.5) | 18.9 (3.0) |

Source: Fieldwork Data, 2007/08

*Relationships are statistically significant in (p<.05)

τ NWEP figures in brackets

**Table 2.2A: Cross-tabular Analysis of Effect on Business by Socio-Demographic Characteristics and Other Variables**

| Variables | Categories | Sample Size (%) | Not At All (%) | Somewhat (%) | Very Much (%) |
|---|---|---|---|---|---|
| **Age of service user SAT (NWEP)$^{\tau}$** | Up to 30 | 15.0 (12.5) | 11.1 (40.0) | 66.7 (40.0) | 22.2 (20.0) |
| | 31-50 | 68.3 (80.0) | 26.8 (21.9) | 48.8 (53.1) | 24.4 (25.0) |
| | 51 & above | 16.7 (7.5) | 20.0 (0.0) | 50.0 (66.7) | 30.0 (33.3) |
| **Marital Status SAT* (NWEP)** | Single | 28.3 (37.5) | 5.9 (33.3) | 47.1 (46.7) | 47.1 (20.0) |
| | Married | 71.7 (62.5) | 30.2 (16.0) | 53.5 (56.0) | 16.3 (28.1) |
| **Occupation of Spouse SAT (NWEP)** | Not Applicable | 28.3 (40.0) | 11.8 (31.3) | 47.1 (43.8) | 41.2 (25.0) |
| | Non-Farming | 30.0 (20.0) | 38.9 (12.5) | 44.4 (62.5) | 16.7 (25.0) |
| | Farming | 41.7 (40.0) | 20.0 (18.8) | 60.0 (56.3) | 20.0 (25.0) |
| **Level of Education SAT (NWEP)** | Sec. & above | 10.0 (5.0) | 33.3 (0.0) | 33.3 (50.0) | 33.3 (50.0) |
| | Prim. And Middle | 66.7 (77.5) | 22.5 (25.8) | 52.5 (51.6) | 25.0 (22.6) |
| | None | 23.3 (17.5) | 21.4 (14.3) | 57.1 (57.1) | 21.4 (28.6) |
| **Number of Children SAT (NWEP)** | 0-2 | 18.3 (25.0) | 9.1 (50.0) | 45.5 (30.0) | 45.5 (20.0) |
| | 3 to 6 | 66.7 (67.5) | 30.0 (14.8) | 52.5 (59.3) | 17.5 (25.9) |
| | 7 & above | 15.0 (7.5) | 11.1 (0.0) | 55.6 (66.7) | 33.3 (33.3) |
| **Being an Indigene SAT (NWEP)** | Yes | 81.7 (87.5) | 20.4 (25.7) | 49.0 (51.4) | 30.6 (22.9) |
| | No | 8.3 (12.5) | 36.4 (0.0) | 63.6 (60.0) | 0.0 (40.0) |
| **Borrowed from Other Sources SAT* (NWEP)*** | Yes | 6.7 (10.0) | 0.0 (0.0) | 25.0 (25.0) | 75.0 (75.0) |
| | No | 93.3 (90.0) | 25.0 (25.0) | 53.6 (55.6) | 21.4 (19.4) |
| **No. of Businesses SAT* (NWEP)** | One | 53.3 (52.5) | 18.8 (19.0) | 68.8 (66.7) | 12.5 (14.3) |
| | Two or more | 46.7 (47.5) | 28.6 (26.3) | 32.1 (36.8) | 39.3 (36.8) |
| **Main Business SAT (NWEP)** | Food Sellers | 38.3 (52.5) | 13.0 (28.6) | 56.5 (47.6) | 30.4 (23.8) |
| | Artisans | 0.0 (7.5) | 0.0 (0.0) | 0.0 (33.3) | 0.0 (66.7) |
| | Shopkeepers | 16.7 (17.5) | 20.0 (14.3) | 40.0 (57.1) | 40.0 (28.6) |
| | Other Traders | 41.7 (22.5) | 36.0 (22.2) | 48.0 (66.7) | 16.0 (11.1) |
| | Farming | 3.3 (0.0) | 0.0 (0.0) | 100.0 (0.0) | 0.0 (0.0) |
| **Time Spent on Bus. SAT (NWEP)** | Up to 8 hours | 31.7 (42.5) | 15.8 (35.3) | 68.4 (47.1) | 15.8 (17.6) |
| | Above 8 hours | 68.3 (57.5) | 26.8 (13.0) | 43.9 (56.5) | 29.3 (30.4) |
| **No. of Cycles in Scheme SAT* (NWEP)*** | 1-3 cycles | 15.0 (55.0) | 0.0 (27.3) | 44.4 (59.1) | 55.6 (13.6) |
| | 4-9 cycles | 48.3 (7.5) | 20.7 (0.0) | 51.7 (0.0) | 27.6 (100.0) |
| | Over 9 cycles | 36.7 (37.5) | 36.4 (20.0) | 54.5 (33.3) | 9.1 (26.7) |

**Table 2.2A continued**

| Variables | Categories | Sample Size (%) | Not At All (%) | Somewhat (%) | Very Much (%) |
|---|---|---|---|---|---|
| **How Decisions Made Within Group** | Group Consensus | 81.7 (92.5) | 20.4 (21.6) | 51.0 (54.1) | 28.6 (24.3) |
| **SAT (NWEP)** | Leaders | 8.3 (7.5)) | 36.4 (33.3) | 54.5 (33.3) | 9.1 (33.3) |
| **Amount of Last Loan (**GH¢) | Up to 100 | 3.3 (47.5) | 0.0 (31.6) | 100.0(52.6) | 0.0 (15.8) |
| **SAT** | 101- 300 | 41.7 (42.5) | 24.0 (11.8) | 48.0 (52.9) | 28.0 (35.3) |
| **(NWEP)** | 301 and above | 55.0 (10.0) | 24.2 (25.0) | 51.5 (50.0) | 24.2 (25.0) |
| **Received Loans on Schedule** | Yes | 60.0 (20.0) | 25.0 (12.5) | 47.2 (50.0) | 27.8 (37.5) |
| **SAT (NWEP)** | No | 40.0 (80.0) | 20.8 (25.0) | 58.3 (53.1) | 20.8 (21.9) |
| **Received Loan at** | Yes | 75.0 (50.0) | 31.1 (25.0) | 44.4 (60.0) | 24.4 (15.0) |
| **Convenient Time SAT (NWEP)** | No | 25.0 (50.0) | 0.0 (20.0) | 73.3 (45.0) | 26.7 (35.0) |
| **Use of Loan for Other Purposes** | Yes | 51.7 (67.5) | 25.8 (25.9) | 48.4 (37.0) | 25.8 (37.0) |
| **SAT (NWEP)*** | No | 48.3 (32.5) | 20.7 (35.4) | 55.2 (64.6) | 24.1 (0.0) |
| **Keep Funds Separate from Household Finance** | Yes | 48.3 (27.5) | 20.7 (27.3) | 62.1 (45.5) | 17.2 (27.3) |
| **SAT (NWEP)** | No | 51.7 (72.5) | 25.9 (20.7) | 41.9 (55.2) | 32.3 (24.1) |
| **Encounter Difficulty in Loan Repayment** | Yes | 11.7 (17.5) | 28.6 (28.6) | 57.1 (28.6) | 14.3 (42.9) |
| **SAT (NWEP)*** | No | 88.3 (82.5) | 22.6 (21.2) | 50.9 (57.6) | 26.4 (21.2) |

Source: Fieldwork Data, 2007/08

*Relationships are statistically significant (p<.05)

τ NWEP figures in brackets

**Table 2.3A Contributed/Increased Contribution to Education of Children by Marital Status**

| Name of Intervention | | | | contributed/increased cont to education of children: not at all | somewhat | very much | Total |
|---|---|---|---|---|---|---|---|
| SAT | marital status 1 | single | Count | 1 | 6 | 5 | 12 |
| | | | % within marital status 1 | 8.3% | 50.0% | 41.7% | 100.0% |
| | | married | Count | 12 | 18 | 12 | 42 |
| | | | % within marital status 1 | 28.6% | 42.9% | 28.6% | 100.0% |
| | Total | | Count | 18 | 19 | 17 | 54 |
| | | | % within marital status 1 | 33.3% | 35.2% | 31.5% | 100.0% |
| NWEP | marital status 1 | single | Count | 1 | 6 | 8 | 15 |
| | | | % within marital status 1 | 6.7% | 40.0% | 53.3% | 100.0% |
| | | married | Count | 6 | 9 | 10 | 25 |
| | | | % within marital status 1 | 24.0% | 36.0% | 40.0% | 100.0% |
| | Total | | Count | 7 | 15 | 18 | 40 |
| | | | % within marital status 1 | 17.5% | 37.5% | 45.0% | 100.0% |

Source: Fieldwork Data, 2007/08
*Relationship is statistically significant in NWEP and SAT (p<.05)

**Table 2.4A: Contributed/Increased Contribution to Education of Children by Use of Loan for Other Purposes**

| Name of Intervention | | | | contributed/increased cont to education of children: not at all | Somewhat | very much | Total |
|---|---|---|---|---|---|---|---|
| SAT | did you use loan for other purposes | yes | Count | 6 | 10 | 13 | 29 |
| | | | % | 20.7% | 34.5% | 44.8% | 100.0% |
| | | no | Count | 12 | 9 | 4 | 25 |
| | | | % | 48.0% | 36.0% | 16.0% | 100.0% |
| | Total | | Count | 18 | 19 | 17 | 54 |
| | | | % | 33.3% | 35.2% | 31.5% | 100.0% |
| NWEP | did you use loan for other purposes | yes | Count | 4 | 7 | 16 | 27 |
| | | | | 14.8% | 25.9% | 59.3% | 100.0% |
| | | no | Count | 3 | 8 | 2 | 13 |
| | | | % | 23.1% | 61.5% | 15.4% | 100.0% |
| | Total | | Count | 7 | 15 | 18 | 40 |
| | | | % | 17.5% | 37.5% | 45.0% | 100.0% |

Source: Fieldwork Data, 2007/08
*Relationships are statistically significant in NWEP and SAT (p<.05)

**Table 2.5A: *Amount of Last Loan by Time Joined Scheme (Number of Cycles)**

| Name of Intervention | | | | Amount of last loan (GH¢) up to 100 | 101-300 | 301 and above | Total |
|---|---|---|---|---|---|---|---|
| SAT | Time joined scheme/number of cycles | 1-3 cycles | Count | 2 | 5 | 2 | 9 |
| | | | % | 22.2% | 55.6% | 22.2% | 100.0% |
| | | 4-9 cycles | Count | 0 | 14 | 15 | 29 |
| | | | % | .0% | 48.3% | 51.7% | 100.0% |
| | | over 9 cycles | Count | 0 | 6 | 16 | 22 |
| | | | % | .0% | 27.3% | 72.7% | 100.0% |
| | Total | | Count | 2 | 25 | 33 | 60 |
| | | | % | 3.3% | 41.7% | 55.0% | 100.0% |
| NWEP | Time joined scheme/number of cycles | 1-3 cycles | Count | 17 | 5 | 0 | 22 |
| | | | % | 77.3% | 22.7% | .0% | 100.0% |
| | | 4-9 cycles | Count | 0 | 3 | 0 | 3 |
| | | | % | .0% | 100.0% | .0% | 100.0% |
| | | over 9 cycles | Count | 2 | 9 | 4 | 15 |
| | | | % | 13.3% | 60.0% | 26.7% | 100.0% |
| | Total | | Count | 19 | 17 | 4 | 40 |
| | | | % | 47.5% | 42.5% | 10.0% | 100.0% |

Source: Fieldwork Data, 2007/08
*Relationships are statistically significant in NWEP and SAT (p<.05)

**Table 2.6A Did you Encounter Difficulty in Loan Repayment by Did you Use Loan for Non-business Purposes**

| | | | did you encounter difficulty in loan payment Yes | no | Total |
|---|---|---|---|---|---|
| did you use loan for other purposes | yes | Count | 9 | 49 | 58 |
| | | % within did you use loan for other purposes | 15.5% | 84.5% | 100.0% |
| | no | Count | 5 | 37 | 42 |
| | | % within did you use loan for other purposes | 11.9% | 88.1% | 100.0% |
| Total | | Count | 14 | 86 | 100 |
| | | % within did you use loan for other purposes | 14.0% | 86.0% | 100.0% |

Source: Fieldwork Data, 2007/08

## *Appendix 3: Ordinal Logistic Regression Analysis*

The results of the ordinal logistic regression were tabulated and interpreted in this section. The results of the analysis are reported in Tables 3.1A to 3.6A and are presented after the interpretation of the results. The effects of the following were assessed on poverty outcomes of the intervention: socio-demographic and business characteristics; loan issues; and group activities. Other components such as interest rates were not amenable to the logistic procedure because it had no variability: the same rate applied to everyone in an intervention. The statistically significant results were interpreted first showing the direction and magnitude of the relationships. The direction of the non-significant relationships was also interpreted with the intention of establishing any underlying patterns or trends.

**3.1A Control Variables**

Statistical controls were used to minimise the effects of extraneous factors that were capable of affecting the outcomes of the regression analysis. Control variables are usually not predictor or independent variables but have the potential to affect the study and therefore have to be held constant in order not to confound the outcomes of the study (Loether and McTavish, 1993).

Based on initial fieldwork experience, observations and the literature, the study controlled for the variables below:

1. Age of service user
2. Occupation of spouse
3. Number of Children
4. Being an indigene
5. Level of education
6. Time spent on business
7. Borrowing from other sources

The rationale for the choice and how they are measured are presented in Appendix 1.

**3.2A Socio-demographic and Business Characteristics and Poverty Reduction**

Business and household outcome indicators were regressed on the control variables and the results of the analysis presented in Tables 3.1A and 3.2A. Amongst the control variables only ‘borrowing from other sources’ which meant borrowing from other microfinance interventions turned out significantly related to business outcomes. Service users who borrowed from other microfinance interventions were over 15 times more likely to state that their businesses improved ‘somewhat’ or ‘very much’ compared to service users who borrowed from only one intervention. All other socio-demographic characteristics did not show any statistically significant relationship to business or household outcomes. With reference to age, older service users were more likely to say the intervention had a positive effect on their households compared to their younger counterparts. The opposite was observed regarding business outcomes, younger service users were more likely to indicate more beneficial business outcomes. Concerning occupation of spouses, service users who were single (not applicable) were more likely to say they experienced positive business and household outcomes compared to service users whose spouses were engaged in farming. On the other hand, service users whose spouses were non-farmers had a greater likelihood of saying their businesses and households did not benefit from the intervention as much as those with farmers as spouses. The benefits of microfinance to business and household increased with the number of children. Being an indigene had a positive effect on business but showed a slightly negative effect on the household. With regard to the level of the service users' education, there was a positive relationship between educational qualification and household outcomes. The reverse was true for the relationship between educational levels and business outcomes. As expected the amount of time a service user spent on her/his business was positively correlated to business and household outcomes. For service users, borrowing from other sources was associated with less beneficial household compared to those who did not.

**3.3A Effects of Loan Issues on Business and Household Outcomes**

The next logistic regression models (3.3A and 3.4A) assessed the effect of loans and related issues on household and business outcomes. The amount of time service users had been in an intervention had a significant effect on businesses of service users. Service users who had been in the intervention for between 1 and 3 cycles and those between 4 and 9 cycles were about 4.6 and 3.6 times respectively to state that the interventions 'somewhat' or 'very much' affected their businesses positively, compared to service users who had experienced more than 9 cycles in the interventions. Time spent in an intervention did not indicate a significant effect on households but the results showed that service users who had been with the intervention between 4 and 9 cycles were more likely to experience positive effects followed by those over 9 cycles and those who have spent between 1and 3 cycles bringing up the rear.

As expected, service users who received loans on schedule were about 3.2 times more likely to state that the intervention had beneficial effects on their businesses and households compared to those who did not receive loans on schedule. Receipt of loans at convenient time was not significantly related to household and businesses outcomes. Users of microfinance interventions who claimed they received loans at a convenient time were less likely to state that the intervention had a positive effect on their businesses. Related to household outcomes, service users who said they received loans at convenient times were more likely to experience positive outcomes compared to service users who did not. These relationships were however not statistically significant.

The use of loans for non-business purposes was a statistically significant predictor of household outcomes. Service users who claimed they used part or all of their loans for other purposes other than business were 2.5 times more likely to experience positive household outcomes compared to those who used their loans for business only. Service users who claimed they used their loans for other purposes were also likely to experience more positive business outcomes than those who did not. The relationship was however not statistically significant. In a follow-up enquiry to find out whether using loans for other purposes affected repayment rates, the variable 'did you use loans for other purposes?' was cross-tabulated with 'did you encounter difficulty in loan repayment?' (see Table 2.6A in Appendix 2). There was no significant relationship between the two variables. The two findings just discussed suggests that using loans for non-business purposes benefits the household but does not affect the capacity for loan repayment.

In connection with the current amount of loan received by service users and its effects on household and businesses of service users, no significant relationship was found. However, service users who received up to GH¢ 100 were less likely to experience positive household and business outcomes compared to those who received above GH¢ 300. However, service users who received between GH¢ 101 and GH¢ 300 showed more positive business and household outcomes than those who received over GH¢ 300.

Keeping business finances separate from household finances was associated with less positive business and household outcomes but these relationships were not significant. Finally and as expected, service users who said they experienced difficulties in loan repayment were likely to say the interventions had less positive effects on their businesses and households. This was also not statistically significant. Difficulty in repayment was defined having missed as least one loan repayment schedule.

**3.4A Influence of Groups Activities on Business and Household Outcomes**
The third set of models assessed the effect of group activities on household and business outcomes (see Tables 3.5A and 3.6A). Few variables turned out statistically significant. The first significant relationship was the effect of decision-making in groups on household outcomes. The study assessed whether decision-making styles in the groups affected households and businesses of service users. The ordinal logistic results showed that service users who claimed decision-making was based on group consensus were about 4.4 times more likely to report that the intervention had a positive effect on their households compared to groups where leaders were primarily in charge of decision-making. This was a statistically significant relationship. The effect of decision-making on business outcomes was in the same direction as household outcomes but the relationship was not statistically significant.

Service users who ‘strongly agreed’ or ‘agreed’ with the statement that group liability was an optimum means of doing microfinance were more likely to experience less beneficial effects of the intervention on their businesses and households compared to service users who disagreed with that statement. Service users who ‘strongly agreed’ or ‘agreed’ were 31% and 83% respectively less likely to say the intervention had a positive effect on their households compared to those who disagreed to the above statement. For business outcomes, service users who ‘strongly agreed’ or ‘agreed’ were 50% and 72% respectively less likely to state that their businesses experienced positive effects than service users who ‘disagreed’ with the statement.

Service users’ knowledge of how their peers used their loans led to more positive household and business outcomes but the relationship was not significant. Other predictors that were not significant included how loan repayments were enforced and whether groups were able to influence use of funds. Loans repayments enforced through peer pressure rather than through the court action or the use of the police was associated with more benefits to households and businesses. Service users who claimed groups were able to influence service users’ use of loans experienced positive household outcomes and less positive business outcomes compared to service users who said the opposite.

It was also noted that the effect of borrowing from other microfinance institutions changed in the various models. As previously stated, in Table 3.2A which comprised of variables related to background and business characteristics, service users were over 15 times likely to state their businesses experienced positive effects. In the model (Table 3.3A) that incorporated the first model (Table 3.2A) and loan issues, the effect of borrowing from other microfinance interventions on businesses increased so that service users were over 21 times more likely to state they experienced positive business outcomes. In Table 3.6A which is made up of variables in Table 3.2A and group activities, service users who borrowed from other interventions were 38 times more likely to report positive benefits in business outcomes.

In addition to the above, the effect of the number of cycles a service user had spent in an intervention changed in the various models. In Table 3.3A (model 1 plus loan variables), service users who had been with the intervention for up to 9 cycles were over 3.5 times more likely to report positive effects on their businesses. However in Tables 3.5A and 3.6A (model1 plus group activities), the variable did not significantly affect businesses but rather service users who had been with the interventions for up to three cycles were 82% less likely to report positive household outcomes compared to those who had been with the intervention for over 9 cycles. Those who had been with the intervention between 4 and 6 cycles were 2 times more likely to state that the intervention had positive effects on their household.

**Table 3.1A: Ordinal Logistic Regression Coefficients for Household Outcomes by Background and Business Characteristics (Activities)**

| Variables | Categories | B | Exp B | Std. Error | Sig. |
|---|---|---|---|---|---|
| | | | | | |
| **Age** | Up to 30 | -1.166 | 0.312 | 0.936 | 0.213 |
| | 31-50 | -0.178 | 0.837 | 0.649 | 0.784 |
| | 51 and above | 0 | 1 | . | . |
| **Occupation of** | Non applicable | 0.591 | 1.806 | 0.502 | 0.239 |
| **Spouse** | Non-farming | -0.099 | 0.906 | 0.526 | 0.851 |
| | farming | 0 | 1 | . | . |
| **Number of** | 0-2 | -0.817 | 0.441 | 0.850 | 0.336 |
| **Children** | 3-6 | -0.209 | 0.811 | 0.638 | 0.743 |
| | 7 and above | 0 | 1 | . | . |
| **Being** | yes | -0.113 | 0.893 | 0.615 | 0.854 |
| **Indigenous** | no | 0 | 1 | . | . |
| **Level of** | Sec. & above | 1.114 | 3.047 | 0.881 | 0.206 |
| **Education** | Prim. & middle | 0.623 | 1.865 | 0.537 | 0.246 |
| | none | 0 | 1 | . | . |
| **Time Spent on** | Up to 8 hrs | -0.455 | 0.634 | 0.436 | 0.296 |
| **Business** | Above 8 hrs | 0 | 1 | . | . |
| **Borrowed from** | Yes | -1.021 | 0.360 | 0.769 | 0.184 |
| **other Sources** | No | 0 | 1 | . | . |

Source: Fieldwork Data, 2007/08

**Table 3.2A: Ordinal Logistic Regression Coefficients for Business Outcomes by Background and Business Characteristics (Activities)**

| Variables | Categories | B | Exp B | Std. Error | Sig. |
|---|---|---|---|---|---|
| | | | | | |
| **Age** | Up to 30 | 0.040 | 1.041 | 0.926 | 0.966 |
| | 31-50 | 0.129 | 1.138 | 0.657 | 0.844 |
| | 51 and above | 0 | 1 | . | . |
| **Occupation of Spouse** | Non applicable | 0.243 | 1.275 | 0.500 | 0.627 |
| | Non-farming | -0.318 | 0.728 | 0.524 | 0.544 |
| | farming | 0 | 1 | . | . |
| **Number of Children** | 0-2 | -1.029 | 0.357 | 0.870 | 0.237 |
| | 3-6 | -0.925 | 0.397 | 0.660 | 0.161 |
| | 7 and above | 0 | 1 | . | . |
| **Being Indigenous** | yes | 0.792 | 2.208 | 0.614 | 0.197 |
| | no | 0 | 1 | . | . |
| **Level of Education** | Sec. & above | -0.154 | 0.857 | 0.881 | 0.861 |
| | Prim. & middle | -0.603 | 0.547 | 0.532 | 0.257 |
| | none | 0 | 1 | . | . |
| **Time Spent on Business** | Up to 8 hrs | -0.691 | 0.501 | 0.440 | 0.117 |
| | Above 8 hrs | 0 | 1 | . | . |
| **Borrowed from other Sources** | Yes | 2.719 | 15.165 | 0.945 | 0.004 |
| | No | 0 | 1 | . | . |

Source: Fieldwork Data, 2007/08

**Table 3.3A: Ordinal Logistic Regression Coefficients for Business Outcomes by Background, Business Characteristics and Loan Issues**

| Variables | Categories | B | EXP B | Std. Error | Sig. |
|---|---|---|---|---|---|
| | | | | | |
| **Age** | Up to 30 | 0.197 | 1.218 | 1.013 | 0.846 |
| | 31-50 | 0.325 | 1.384 | 0.734 | 0.658 |
| | 51 and above | 0 | 1 | . | . |
| **Occupation of Spouse** | Non applicable | 0.686 | 1.986 | 0.568 | 0.227 |
| | Non-farming | -0.356 | 0.700 | 0.600 | 0.553 |
| | Farming | 0 | 1 | . | . |
| **Number of Children** | 0-2 | -1.246 | 0.288 | 0.931 | 0.181 |
| | 3-6 | -0.956 | 0.384 | 0.726 | 0.188 |
| | 7 and above | 0 | 1 | . | . |
| **Being Indigenous** | Yes | 0.520 | 1.682 | 0.673 | 0.439 |
| | No | 0 | 1 | . | . |
| **Level of Education** | Sec. & above | -0.068 | 0.934 | 0.933 | 0.942 |
| | Prim. & middle | -0.573 | 0.564 | 0.555 | 0.301 |
| | none | 0 | 1 | . | . |
| **Time Spent on Business** | Up to 8 hrs | -0.761 | 0.467 | 0.476 | 0.210 |
| | Above 8 hrs | 0 | 1 | . | . |
| **Number of Cycles in Scheme** | 1-3 | 1.523 | 4.586 | 0.706 | 0.031 |
| | 4 to 9 | 1.272 | 3.568 | 0.551 | 0.021 |
| | Above 9 | 0 | 1 | . | . |
| **Borrowed from other Sources** | Yes | 3.057 | 21.264 | 1.021 | 0.003 |
| | No | 0 | 1 | . | . |
| **Amount of Last Loan** | Up to 100 | -0.566 | 0.568 | 0.841 | 0.501 |
| | 101-300 | 0.292 | 1.339 | 0.560 | 0.602 |
| | 300 & above | 0 | 1 | . | . |
| **Received Loan On Schedule?** | Yes | 1.160 | 3.190 | 0.532 | 0.029 |
| | No | 0 | 1 | . | . |
| **Rec. Loan at Convenient Time** | Yes | -1.120 | 0.326 | 0.576 | 0.062 |
| | No | 0 | 1 | . | . |
| **Did you Use Loan for other Purposes** | Yes | 0.516 | 1.675 | 0.461 | 0.263 |
| | No | 0 | 1 | . | . |
| **Separate Loan from Household Finances** | Yes | -0.284 | 0.753 | 0.497 | 0.568 |
| | No | 0 | 1 | . | . |
| **Difficulty in Loan Repayment** | Yes | -0.755 | 0.470 | 0.673 | 0.262 |
| | No | 0 | 1 | . | . |
| Link function: Logit. | | | | | |

Source: Fieldwork Data, 2007/08

## Table 3.4A: Ordinal Logistic Regression Coefficients for Household Outcomes by Background, Business Characteristics and Loan Issues

| Variables | Categories | B | EXP B | Std. Error | Sig. |
|---|---|---|---|---|---|
| | | | | | |
| **Age** | Up to 30 | -1.190 | 0.304 | 1.026 | 0.246 |
| | 31-50 | -0.352 | 0.703 | 0.711 | 0.621 |
| | 51 and above | 0 | 1 | . | . |
| **Occupation of Spouse** | Non applicable | 0.943 | 2.568 | 0.588 | 0.109 |
| | Non-farming | -0.671 | 0.511 | 0.622 | 0.280 |
| | Farming | 0 | 1 | . | . |
| **Number of Children** | 0-2 | 1.053 | 2.866 | 0.900 | 0.242 |
| | 3-6 | -0.232 | 0.793 | 0.681 | 0.733 |
| | 7 and above | 0 | 1 | . | . |
| **Being Indigenous** | Yes | -0.606 | 0.546 | 0.715 | 0.396 |
| | No | 0 | 1 | . | . |
| **Level of Education** | Sec. & above | 0.853 | 2.347 | 0.989 | 0.388 |
| | Prim. & middle | 0.783 | 2.188 | 0.596 | 0.188 |
| | None | 0 | 1 | . | . |
| **Time Spent on Business** | Up to 8 hrs | -0.397 | 0.672 | 0.487 | 0.415 |
| | Above 8 hrs | 0 | 1 | . | . |
| **Number of Cycles Spent** | 1-3 | -0.182 | 0.834 | 0.669 | 0.786 |
| | 4 to 9 | 0.741 | 2.098 | 0.557 | 0.183 |
| | Above 9 | 0 | 1 | . | . |
| **Borrowed from other Sources** | Yes | -1.019 | 0.361 | 0.833 | 0.221 |
| | No | 0 | 1 | . | . |
| **Amount of Last Loan** | Up to 100 | -1.387 | 0.250 | 0.870 | 0.111 |
| | 101-300 | 0.289 | 1.335 | 0.557 | 0.604 |
| | 300 & above | 0 | 1 | . | . |
| **Received Loan On Schedule?** | Yes | 1.142 | 3.133 | 0.538 | 0.034 |
| | No | 0 | 1 | . | . |
| **Rec. Loan at Convenient Time** | Yes | 0.078 | 1.081 | 0.565 | 0.890 |
| | No | 0 | 1 | . | . |
| **Did you Use Loan for other Purposes** | Yes | 0.925 | 2.522 | 0.483 | 0.049 |
| | No | 0 | 1 | . | . |
| **Separate Loan from Household Finances** | Yes | -0.453 | 0.636 | 0.509 | 0.373 |
| | No | 0 | 1 | . | . |
| **Difficulty in Loan Repayment** | Yes | -0.280 | 0.756 | 0.698 | 0.689 |
| | No | 0 | 1 | . | . |
| Link function: Logit. | | | | | |

Source: Fieldwork Data, 2007/08

**Table 3.5A: Ordinal Logistic Regression Coefficients for Household Outcomes by Background, Business Characteristics and Group Issues**

| Variables | Categories | B | EXP B | Std. Error | Sig. |
|---|---|---|---|---|---|
| | | | | | |
| **Age** | Up to 30 | -1.741 | 0.175 | 1.070 | 0.104 |
| | 31-50 | -0.576 | 0.562 | 0.727 | 0.428 |
| | 51 and above | 0 | 1 | . | . |
| **Occupation of** | Non applicable | 0.475 | 1.608 | 0.565 | 0.400 |
| **Spouse** | Non-farming | -0.300 | 0.741 | 0.590 | 0.611 |
| | Farming | 0 | 1 | . | . |
| **Number of** | 0-2 | 1.410 | 4.096 | 0.945 | 0.135 |
| **Children** | 3-6 | 0.329 | 1.390 | 0.700 | 0.638 |
| | 7 and above | 0 | 1 | . | . |
| **Being** | Yes | 0.246 | 1.279 | 0.708 | 0.728 |
| **Indigenous** | No | 0 | 1 | . | . |
| **Level of** | Sec. & above | 0.539 | 1.714 | 0.971 | 0.579 |
| **Education** | Prim. & middle | 0.645 | 1.906 | 0.606 | 0.287 |
| | None | 0 | 1.000 | . | . |
| **Time Spent on** | Up to 8 hrs | -0.253 | 0.776 | 0.489 | 0.605 |
| **Business** | Above 8 hrs | 0 | 1 | . | . |
| **Number of** | 1-3 | -1.731 | 0.177 | 0.628 | 0.006 |
| **Cycles in Scheme** | 4 to 9 | 0.724 | 2.063 | 0.586 | 0.217 |
| | Above 9 | 0 | 1.000 | . | . |
| **Borrowed from** | Yes | -0.166 | 0.847 | 0.825 | 0.841 |
| **other Sources** | No | 0 | 1 | . | . |
| **How are Decisions** | Consensus | 1.486 | 4.419 | 0.701 | 0.034 |
| **Made in Group?** | Leaders | 0 | 1.000 | . | . |
| **Knowledge of Members'** | Yes | 0.514 | 1.672 | 0.475 | 0.279 |
| **Loan Use** | No | 0 | 1 | . | . |
| **How does your Group** | Peer Pressure | 0.656 | 1.927 | 0.680 | 0.335 |
| **Enforce Repayment** | Court Action | 0 | 1 | . | . |
| **Group able to** | Yes | 0.195 | 1.215 | 0.554 | 0.725 |
| **Influence Loan Use** | No | 0 | 1 | . | . |
| **How Do you Rate GL as a** | V. Effective | 1.745 | 5.726 | 1.126 | 0.121 |
| **Method of Enforcing** | Somewhat Eff. | 0.145 | 1.156 | 0.632 | 0.819 |
| **Repayment?** | Not Effective | 0 | 1 | . | . |
| **Group Liability the** | Strongly agree | -0.371 | 0.690 | 0.877 | 0.672 |
| **Optimum Way of Doing** | Agree | -1.764 | 0.171 | 0.591 | 0.003 |
| **Microfinance** | Disagree | 0 | 1 | . | . |
| Link function: Logit. | | | | | |

Source: Fieldwork Data, 2007/08

**Table 3.6A: Ordinal Logistic Regression Coefficients for Business Outcomes by Background, Business Characteristics and Group Issues**

| Variables | Categories | B | EXP B | Std. Error | Sig. |
|---|---|---|---|---|---|
| | | | | | |
| **Age** | Up to 30 | -0.346 | 0.708 | 1.014 | 0.733 |
| | 31-50 | -0.009 | 0.991 | 0.718 | 0.990 |
| | 51 and above | 0 | 1 | . | . |
| **Occupation of** | Non applicable | 0.188 | 1.207 | 0.548 | 0.732 |
| **Spouse** | Non-farming | -0.082 | 0.921 | 0.566 | 0.885 |
| | Farming | 0 | 1 | . | . |
| **Number of** | 0-2 | -1.014 | 0.363 | 0.942 | 0.282 |
| **Children** | 3-6 | -0.679 | 0.507 | 0.720 | 0.346 |
| | 7 and above | 0 | 1 | . | . |
| **Being** | Yes | 1.089 | 2.971 | 0.685 | 0.112 |
| **Indigenous** | No | 0 | 1.000 | . | . |
| **Level of** | Sec. & above | -0.699 | 0.497 | 0.942 | 0.458 |
| **Education** | Prim. & middle | -0.499 | 0.607 | 0.576 | 0.387 |
| | None | 0 | 1 | . | . |
| **Time Spent on** | Up to 8 hrs | -0.742 | 0.476 | 0.479 | 0.122 |
| **Business** | Above 8 hrs | 0 | 1 | . | . |
| **Number of** | 1-3 | 0.198 | 1.219 | 0.581 | 0.733 |
| **Cycles in Scheme** | 4 to 9 | 0.940 | 2.560 | 0.577 | 0.103 |
| | Above 9 | 0 | 1 | . | . |
| **Borrowed from** | Yes | 3.644 | 38.245 | 1.068 | 0.001 |
| **other Sources** | No | 0 | 1 | . | . |
| **How are Decisions** | Consensus | 1.131 | 3.099 | 0.676 | 0.094 |
| **Made in Group?** | Leaders | 0 | 1 | . | . |
| **Knowledge of Loan** | Yes | 0.442 | 1.556 | 0.470 | 0.347 |
| **Use** | No | 0 | 1 | . | . |
| **How do You** | Peer Pressure | 0.176 | 1.192 | 0.659 | 0.789 |
| **Enforce Repayment** | Court Action | 0 | 1 | . | . |
| **Is group able to** | Yes | -0.277 | 0.758 | 0.538 | 0.606 |
| **Influence Loan Use** | No | 0 | 1 | . | . |
| **How Does Group** | V. Effective | 0.778 | 2.177 | 1.029 | 0.450 |
| **Enforce Repayment** | Somewhat Eff. | -0.381 | 0.683 | 0.626 | 0.542 |
| | Not Effective | 0 | 1 | . | . |
| **Group Liability the** | Strongly agree | -0.686 | 0.504 | 0.865 | 0.428 |
| **Optimum Way of Doing** | Agree | -1.276 | 0.279 | 0.549 | 0.020 |
| **Microfinance** | Disagree | 0 | 1 | . | . |
| Link function: Logit. | | | | | |

Source: Fieldwork Data, 2007/08

## *Appendix 4: Definition of Concepts and Operational Definitions*

**4.1A Operational Definition of Microfinance**
Throughout the paper, the term ‘microfinance’ is used to designate the provision of financial (and non-financial) services to the poor who have no access to traditional financial resources. Microfinance, as used in this study, refers to financial (and non-financial) services provided by formal establishments[90] or organisations. Financial services include loans, savings, insurance and money transfer services. Some non-financial services provided are financial management and education in health and nutrition. For a more comprehensive analysis of microfinance see section 2.2.

**4.2A Differentiating between Microfinance Institutions and Microfinance Interventions**
This study liberally uses the terms ‘microfinance institutions’ and ‘microfinance interventions’. It is important to make the distinction between the two to avoid any misunderstanding. In this study a microfinance institution denote formal establishments or organisations whose primary purpose is to dispense microfinance services. For example although the Barclays Bank (Ghana) provides some form of microfinance services, it is not a microfinance institution because its primary purpose is not to provide microfinance services. On the other hand SAT is a microfinance institution because it was set up purposely to provide microfinance services.

Microfinance interventions refer to programmes that provide microfinance services. Microfinance interventions can be provided by microfinance institutions, orthodox financial institutions or can be a component of a development intervention[91]. For example Nsoatreman Rural Bank operates multiple microfinance interventions: NWEP, the Susu scheme and other microfinance services on behalf of the government and other agencies. In sum microfinance institution refers to an organisation while microfinance intervention represents programmes of the organisation.

**4.3A Rurality Defined**
There seem to be no consensus of what constitutes a rural area. In the developed world such as the United States, population density and degree of isolation (distance from an urban area) have been used as defining criteria for rural areas (AMCHP, 2004; Crandal and Weber, 2005). In developing countries population size, availability of basic amenities, main economic activity, and socio-economic characteristics are a few of the features that have been used to define rural areas (Owusu, 2005; Muula, 2007). A community is deemed to be rural if it lacks basic social amenities such as pipe-borne water, electricity, motorable roads, educational facilities and healthcare facilities. The main occupation of rural communities in developing countries is agriculture (crop and livestock production), fishing and forestry (Khan, 2000). Markets in rural settlements are usually poor and characterised by fluctuations in demand as a result of seasonal influences. Social relations in rural areas are usually

[90] Formal establishment refers to institutions with clearly defined hierarchical structure which is not based on personal relationships.
[91] For example, World Vision International provides microfinance as one of its numerous development interventions.

based on kinship ties and there is a high degree of familiarity among residents in a rural area. Kinship networks may also determine residential patterns. Cohesion and integration in the community is a result of homogeneity based on occupation and lifestyle.

In Ghana, however, a rural area is officially defined as a settlement with population of less than 5000. This official definition has existed since 1957 when the population of the country was about 6 million (Adlakha, 1996). Ghana's population has almost quadrupled to 23.8 million (CIA, 2008) since then. Population increase has led to increase in rural populations without much corresponding changes in other indicators that characterises rurality. This has created a lot of large rural settlements in Ghana. Such settlements have populations over ten thousand but still retain other vestiges of rurality.

Muula (2007) has argued that definitions should reflect what motivates the classification. Since the interest of this thesis lies in finance, income-generating activities, and the socio-cultural context of the rural poor, the basis for classifying a settlement as rural will be main occupational activity, socio-cultural patterns and markets.

### 4.4A Poverty Outcomes

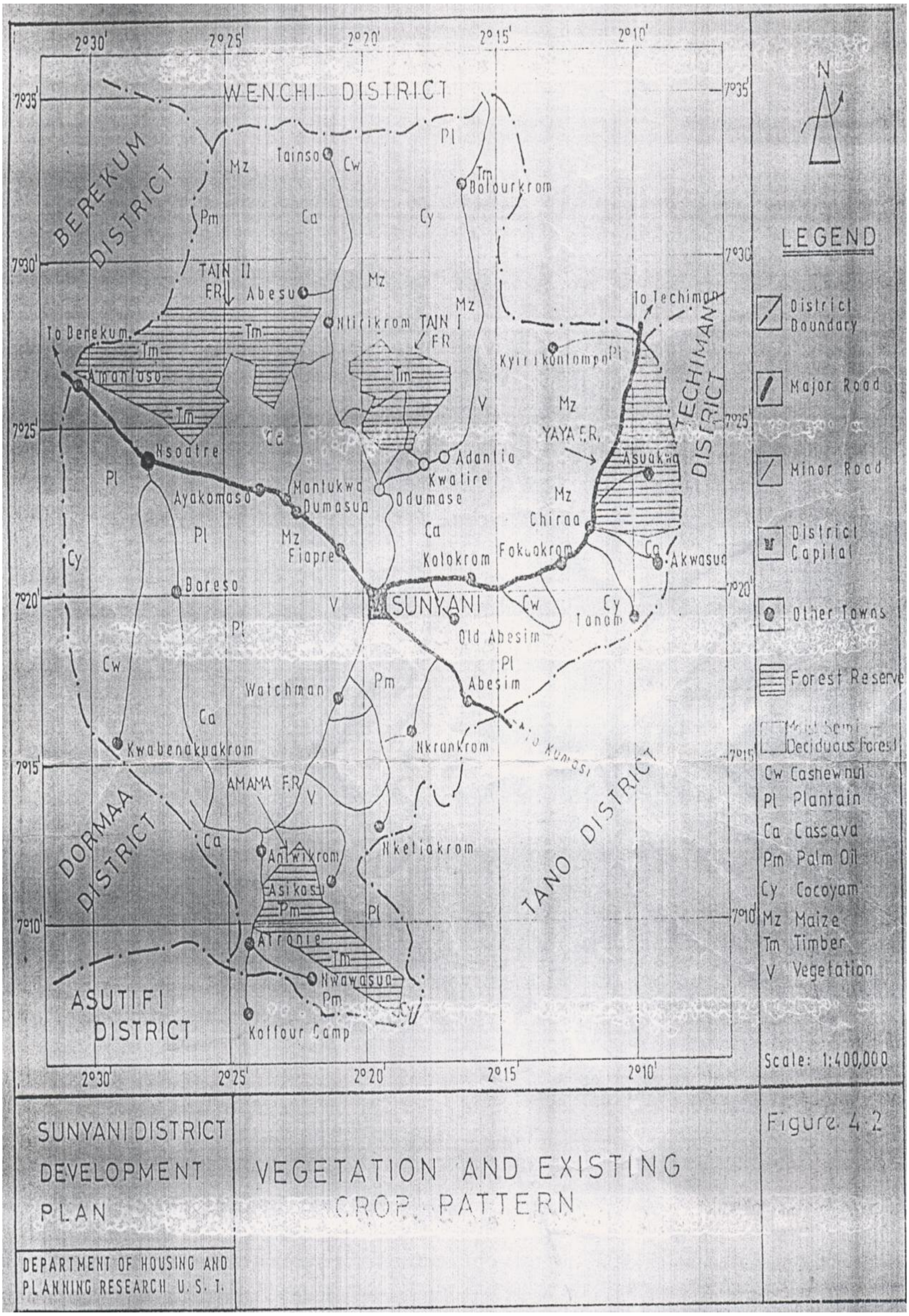
Microfinance interventions affect poverty reduction at the individual, household and at the enterprise level (Hulme, 2000; Johnson et al., 2002). Studies at the individual level of analysis have mostly concentrated on the issue of empowerment, especially for women. Individuals as units of analysis are easily defined and identified but effects of interventions usually transcend individuals and therefore do not enable the researcher to capture much of the effects of interventions (Hulme, 2000). Regarding businesses, it is relatively easy to calculate the effects of microfinance on businesses especially if factors such as profitability and returns to investment are indices. Assessment at the enterprise level is quite problematic in rural areas because it is usually difficult to distinguish between an enterprise and other household activities. It is also now widely acknowledged that targeting microfinance resources at particular occupations or businesses is a futile exercise because of the fungibility of financial resources (Zeller et al., 1997). Evidence shows that service users adapt loans to use them for a variety of purposes such as medical expenses, funerals and school fees. Assessing the impact of access to microfinance services at the household level takes care of the issue of fungibility because when financial resources are diverted from their original purpose they ultimately end up in the household. Indeed some researchers have argued that permitting the allocation of financial resources by service users usually implies optimality in allocation and use of microfinance resources (Hulme, 2000). Households as units of assessment are not without problems. In some rural areas it is difficult to delineate the membership of a household. For instance, is the household the nuclear or the extended family? Employing the household as a single unit of impact assessment fails to take into consideration unequal access to resources in the household.

The study was primarily interested in the effect of microfinance interventions on households because of its advantages over other units of assessment when measuring poverty reduction. Household is defined to reflect the context of the area of study: a group of people who eat from the same pot. The household in rural Ghana usually transcends the nuclear family. The study mainly household outcome variables were mostly related to consumption. Interviews to assess people's perception of poverty were mostly related to consumption such as not having enough food to eat, lack of decent clothing and not being able to participate in public ceremonies. Compared to income which could be accrue to a household but could be mismanaged, consumption had a direct impact on households. Business outcomes were included in the study to understand how the effect of microfinance on businesses in a rural area. Another important reason for its inclusion was because microfinance discourse places emphasis on effects on businesses: microloans are invested in businesses to generate extra income. For business outcomes the study included variables that measured expansion and improvement in businesses.

# Appendix 5: Map of Ghana


Source: Ghana Geological Survey

***Appendix 6: Map Showing Nsoatre in the Sunyani District***




Source: Sunyani District Assembly Planning Department.

## *Appendix 7: Interview Guide*

The interview guide was used to collect data especially in the implementation processes of the interventions. The study employed semi-structured interview format. The interviews, on the average, lasted for about one hour.

Prior to the use of the interview guide interview guide, interviewees were expected to provide bio-demographic information such as age, marital status, occupation, number of dependents (if any). This information should give a good picture of service users and their households in general.

**Interview Guide**

**I. Group Liability Scheme**

1. How did you become a member of your group?
2. How long have you been together? (Probe: how is group sustained? dropouts?)
3. How often do you meet? If you do, tell me about such meetings?
4. What is the relationship between your group and the institution?
5. What change(s) will you like to see in your group?
6. What do you particularly like about your group?

**II. Targeting Women**

1. What is your opinion about targeting women only?
2. To what extent has access to financial services influenced your relationship with spouse, members in the community, etc?
3. What do you like about being targeted as a woman? (what don't you like?)
4. How can targeting of women be improved?

**III. Minimalist/Credit-Plus**

1. Apart from financial services, **can you identify** other services that the institution offers? (Probe: offers training on group activities, setting up business, technical advice?). If any, how helpful were they?
2. Did you have any non-financial services from the institution? (explain) If yes. What were they?
3. In your opinion, do/did you require any non-financial services? (explain further)
4. What non-financial services will you like the institution to provide and why?

**IV. Interest Rates**

1. What is the interest rate charged/given on loan/savings? What is your opinion about that?
2. Do you borrow money from elsewhere? If yes, how does it (interest rate) compare with what is charged elsewhere?

**V. Implementation**

1. Can you describe your relationship with staff of institution? (probe for any irregularities, e.g. bribery, favouritism, high-handedness, etc)
2. How are loans disbursed?
3. Can you tell me about the process of accessing savings (compulsory schemes)/ what does the process of saving and withdrawal entail?
4. What is the level of involvement of staff with use of financial services (probe: do staff have any influence on how service users apply financial services?)

## Services

**V. Loans**

1. How do you describe access to credit facilities? (probe: easy, competitive, complicated, rationed etc).
2. What features do you require in a loan? (explain: convenience, proximity, size, promptness,
3. How important are loans to you?
4. What are the repayment requirements of the institution and your repayment experience?
5. What have you primarily used the loan(s) for? (seek clarification for multiple use for different cycles).
6. Is that what you intended to use loan(s) for? If not, what is the reason?

**VI. Savings**

1. What type of savings services does your institution offer? (explain: compulsory, voluntary or both)
2. How often do you use savings facilities? If not why?
3. Which one do you prefer, voluntary or compulsory and why?
4. What do you like about savings facilities offered ?
5. What will you like to change if you had a chance?

**V. People's Conception of Poverty**

1. In your opinion what is poverty? (how does it manifest?)
2. What are the characteristics of a poor household?
3. How will you describe status of your household before you joined the intervention?
4. Are there any changes in your household that can be attributed to the intervention?

## *Appendix 8: Questionnaire for NRB & SAT Service Users*

**Background and Personal Information**

1. Name………………………………………………………………
2. Age: < 21 ( ) : 21-30 ( ) : 31-40 ( ) : 41-50 ( ): 51-60 ( ): > 60 ( )
3. Marital Status: single ( ): married ( ): divorced ( ): widow/widower ( ): common-law ( ): other (specify)………………………………………………....
4. Occupation of Spouse (specify):……………………………………………
5. Level of Education: none ( ): primary sch. ( ): middle sch. ( ): sec. sch ( ): other (specify) ……………………………………
6. Number of Children (no. of dependent children/wards): 0 ( ): 1-2 ( ): 3-4 ( ): 5-6( ): 7-8 ( ): > 8
7. Do you borrow from other sources?: yes ( ): no ( )

7a. If yes, from what source(s)? & details:…..…………………………………….

8. Indigene of town: yes ( ): no ( )
9. Type(s) of business(es):………………………………………………………...

9a. If more than one business, what is your main business?...................................

10. Amount of time spent on business:……………………………………………..
11. Time (year) joined scheme (number of cycles): ……………….………………

**Group Activities and Dynamics**

12. What is the name of your group?:………………………………………………
13. How was your group formed?:
    ……………………………………………………………..
    ……………………………………………………………………………………
    ……
14. How many members are in your group?: ………………………………………
15. How are decisions made in the group?: group consensus ( ): by leaders ( ): by MF staff ( ): other (specify) …………………………………………………
16. How does your group enforce repayments? …………………………………...
17. Do you know how other members use their funds?: no ( ): yes ( ):
    other
    (specify)…………………………………………………………………
18. Is the group able to influence other members in the "proper" use of funds?: yes ( ) : no ( ): other (specify)…………………………………………………….
19. How do you rate GL as a method of enforcing payment? : very effective ( ): effective ( ): not effective ( ): other (specify): ………………………………….
20. Using GL is an optimum means of doing MF?: strongly agree ( ): agree ( ): disagree ( ): other (specify) ………………………………………………….

**Minimalist\Credit-Plus**

21. Do you know any non-financial services provided by the scheme?:…………………………………………………………………….
    ……………………………………………………………………………………
    ……………………………………………………………………………………
    ……………………………………………………………………………………

21a. If any, how will you describe these non-financial services?: beneficial ( ): not beneficial ( ): other (specify)…………………………………………………

…………………………………………………………………………………………
……………………………………………………………………………………………...

21b. If any, mention two things you like most about these financial services:
……….. ……………………………….…………………………………………………...

22. (if any)mention two things you will like least about the non-financial services:………………………………………………………………………….. …………………………………………………………………………………… ……………………………………………………………………………………

**Lending and Interest Rates & Perception of MFI**

23. Amount of last loan: ………………………………………………………………..
24. Are loans usually disbursed on schedule?: no ( ): yes ( ): other (specify)……..
25. Do you usually receive loans at periods convenient for your business and other purposes? yes ( ): no ( ): other (specify)……………………………………….
26. Do you (sometimes) use loans for other purposes? (such as paying school fees, hospital bills etc): no ( ): yes ( ): other(specify)…........................…………
27. Do you keep your business money separate from money for personal or household expenses?
28. Have you encountered any difficulty in servicing your loans?: no ( ): yes ( ): other (specify) ……………………………………………………………………
29. Does your savings attract any interest?: yes ( ): no ( ): don't know ( ): other (specify)………………………..........................................................................
30. How do you assess the savings scheme of the MF scheme overall?: satisfactory ( ) : moderately satisfactory ( ): not satisfactory ( ): other (specify)…………………………………………………………………………
31. How do you rate the scheme?: very beneficial ( ): beneficial ( ); not beneficial ( ): other (specify)……………………………………………………………

**Effect on Business**

| **As a result of being with the scheme, did you make any of the following changes so that your business could earn more income or be more productive?** | Very much | Somewhat | Not at all | Other (specify) |
|---|---|---|---|---|
| Expanded size of business | | | | |
| Added new products | | | | |
| Hired more workers | | | | |
| Reduced costs by buying in greater volume or at wholesale prices | | | | |
| Improved quality of business products | | | | |
| Developed new businesses | | | | |
| Increased business assets | | | | |

**Effect on Household**

| **How has your participation in the scheme enabled you to do the following** | Very much | Somewhat | Not at all | Other (specify) /N/A |
|---|---|---|---|---|
| Contributed/increased contribution to household finances/income | | | | |
| Contributed/increased contribution to education of children | | | | |
| Enabled household cope during the lean season | | | | |
| Acquired long-term assets (building, building plot, farmland etc) | | | | |
| Contributed to the acquisition of household assets ( TV., tape etc) | | | | |
| Increase the ability to cope with household emergencies | | | | |
| Make/increase household savings | | | | |