

The Role of Informal Financial Sector in Capital Mobilization in Ghana: A Case Study of Micro Financing in Ho Municipality for Economic Development

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Abstract

In Ghana, like in other developing countries, microfinance has been acknowledged as a pro-poor development intervention because of its special program models in meeting the special needs of the poor. The Ghanaian informal economic landscape is replete with Micro Finance Institutions (MFIs), which are assumed to have varied orientations and outcomes for their clients. MFIs have long provided microfinance products and services with the expectation of improving the socio-economic and political well-being of the Ghanaian poor. This study explores the role of non-financial institutions in capital mobilization for economic development via poverty reduction. In addition, the study examines the challenges faced by both the MFIs and the beneficiaries in granting and accessing credit. Specific objectives were developed to facilitate the achievement of the study. Qualitative and quantitative methodologies were used to collect primary data from about 100 respondents recruited from the MFIs. The study found that MFIs services serve a perfect platform for petty traders, artisans and SMEs to accumulate capital and raise enough funds to boost their businesses. This is done through daily savings of any amount by the client. The study found out the various savings instruments used by MFIs to attract customers, the various services they provide to the public, their largest categories of borrowers, their clientele base and measures they put in place to reduce their credit interest rate risk. The study came out with recommendations to improve the services and operations of MFIs and also how the beneficiaries can also benefit and utilize the services of MFIs and what government can also do in protecting the citizenry

Key Words: Non-Financial Institution; Capital Mobilization; Economic Development; Poverty Reduction

Introduction

Access to credit and capital mobilization can play a vital role in economic development of a country. Banks and lending institutions provide the services that allow people to save and invest available assets and resources which further supports and strengthen economic activity.

Within the underdeveloped communities, the role of microfinance institutions provides credit access and financial services needed to develop income-earning businesses for economic development.

Microfinance institutions fill a needed gap within the financial services industry by offering small loans or microloans to people unable to access conventional loan services. Within any society, financial services provide means for people and businesses to obtain credit and manage available assets on a continuous basis. Access to financial services enables existing businesses to grow and provide the starting capital for starter businesses. Microfinance institutions provide these services in communities that have limited resources and few avenues for economic development. People within these communities can use microloans to develop small businesses based on their existing talents and skills sets (Jacquelyn, 2008). Most governments especially in developing world have either instituted or promoted microcredit institutions as a poverty reduction strategy. The microfinance institutions (MFIs) has been identified as a potential means of mobilizing funds for personal, as well as business development.

In the last few decades, the government of Ghana has implemented many programs to reduce poverty, including the Livelihood Employment against Poverty (LEAP), Program of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) and Microfinance and Small Loan Centre (MASLOC). Of the various tools used in poverty reduction, microfinance has been the most popular in recent times across developing countries as a whole. This is because access to credit has been recognized as one of the many strategies that could be used to combat poverty. The microfinance scheme of these institutions ranges from credit and savings to skills training or capacity building programs. The arguments of the proponents of microfinance are that, when financial services with some capacity building programs are available to the poor, it will lead to poverty reduction and empowerment. It will make the poor gain their equal membership voices in their households and make them become part of mainstream community and national life.

Microfinancing can play an essential part for the foreseeable future in providing basic financial services to the poor and thereby helped in advancing Ghana's developmental goals (microfinance in Africa; adviser on Africa, New York, 2011). Over the last decade, several reforms have taken place and the recent directive from Bank of Ghana to register all MFIs to enable MFIs to impact their clients' positively. As of December 2013, we have 291 registered MFIs in Ghana, 84 provisional licensed MFIs and 58 non-financial institutions (www.bog.gov.gh).

Microfinance is the act of creating a platform for financial inclusion for the unbanked and low-income earners. This includes a mass savings scheme, by Suleiman Mustapha Ecobank's microfinance arm, wins the international award (Daily Graphic, 2011). The provision of financial access to unbanked, under-banked and low-income customers is fundamental to unlocking the immense economic potential of Ghana. Microfinance provides business leverages as well as capacity and cost-effective access to savings and loans. Savings is the act of differing current consumption for future use. The microfinance industry has made great strides towards identifying barriers to individuals' financial services and developing ways to overcome those barriers.

The existence of MFIs in Ho Municipality has really helped small and micro businesses to gain startup capital and to expand their businesses. The informal financial institutions constitute village banks, cooperative credit unions and social venture capital funds to help the poor. These institutions are those that provide savings and credit facilities for small and medium-sized enterprises. They mobilize rural savings and have simple and straightforward procedures that originate from local culture and are easily understood by the population (Greer, 2008). It is not until recently that microfinance institutions have gained recognition, thanks to the noble prize winner Yumus Mohammed of the Grameen Bank in Bangladesh. An MFI gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (microfinance radio, Netherlands, 2010).

It has been observed that in Ho Municipality, like another metropolitan, municipal and districts in Ghana, microfinance has been applied as a poverty eradication strategy. It has been used to provide low-income people with small loans, micro-credits, and other microfinance services as an impetus to exploit their productivity and develop their business to help them improve their livelihoods. Traders especially market women find it difficult to save their daily takings with the banks because most banks are situated far distanced from these traders. Also, minimum deposit requirement by banks and withdrawal regulations, scare many people with small daily amounts from saving with the banks. Additionally, these traders lack access to loan capital from the banks, because they could not provide collateral demanded by the banks. Many of these traders have resorted to micro-financing as an alternative means of capital mobilization and access to credit.

Much as microfinance services have existed in Ho municipality for a period of time, there is lack of information on the good practices in the area and the impact of their services on the poor and how the loans are accessed and utilized in order to attain socio-economic development. The fact that poverty still exists amidst attempt of providing microfinance creates room for exploring how far microfinance has benefited the poor in Ho

municipality. The study provides information about the role played by microfinance in the socio-economic development of the people in Ho municipality.

The role of capital mobilization in business cannot be overemphasized. The Ho Municipal Assembly as a local government institution has various developmental partners it works with to uphold the welfare of its community. In the field of microfinance, there are non-governmental organizations that promote their services to the community. The Assembly, however, is limited in terms of research findings on how these organizations implement their services and whether the community is benefiting from them or not. The study established and developed a baseline data that would be used by scholars and credit institutions within the Ho municipality for effective planning and program implementation. The year 2005, observed worldwide as “the international year of microfinance,” highlighted the contribution of microcredit to the millennium development goals, increase public awareness and understanding of microfinance; promoted inclusive financial services and promoted strategic partnership to build and expand outreach and success of microcredit (United Nations, 2005).

This study was timely in its effort to establish the role of microfinance in capital mobilization for economic development in Ghana after various promotions, support, and public awareness; strategies had been carried out during the international year of microfinance. The study was also carried out to fill literature gap.

Literature Review

Meaning of microfinance

Microfinance is simply defined as credit advanced to the poor who normally do not have collateral to pledge. It involves the provision of financial services via MFIs, either to the working poor or those who rely on their small businesses for income and who are not considered bankable because they lack collateral to pledge as security or considered high risk by the mainstream or traditional commercial banking sector (Basu, 2004). It is a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services.

The main ultimate goal of microfinance, therefore, is to give low-income people an opportunity to become self-reliant and sufficient by providing means of micro savings, borrowing money and insurance. Microfinance can be described as a form of banking because; it is a system of trading in money which involves safeguarding deposits and making the funds available to the owners when required to borrowers at a fee.

History of microfinance

Microfinance is one of Africa's most ancient traditional banking systems which have over the years been the mode of fund mobilization for initiation, sustenance and some cases, development of Micro and Small Enterprises (MSEs). With the expansion of the money economy, microfinance collections have not lost its vigor. Quite on the contrary, it has multiplied both in numbers and diversity (Barclays Bank, 2005). The microfinance system seems to have proven to be a dependable and cost-effective mechanism of emphasizing state participation and encouragement of the indigenous domestic sector.

Microfinance is more than a financial product. It is a social capital because, the individual members derived mutual benefits from the network that cannot be achieved by an isolated member (Priya, 2006). Due to the perceived contributions of micro-financing to the development of MSEs, and its ability to mop excess liquidity through its savings mobilization methods, microfinance is now being recognized and incorporated into some formal institutions as a deposit-loan system using susu collectors (Basu, 2004; and Barclays Ghana, 2005). Microfinance in Ghana is thought to have originated from Nigeria and spread to Ghana in the early twentieth century (Asiama and Osei, 2007). The microfinance movement has changed perceptions towards helping the poor. In most countries, microfinance has been used as a tool to increase financial depth in rural areas and has typically targeted very low –income groups who would normally be excluded by conventional financial institutions (Weiss and Montgomery, 2004). Without a doubt, the microfinance concept has endeared itself to

both policymakers and a greater number of the citizenry who have taken it as a better alternative to the traditional banking concept. For policymakers, it is one of the effective ways of mobilizing capital and alleviating poverty as it makes banking accessible and affordable to the poor and the underprivileged in the economy. Microfinance scheme involves the payment of the specific amount of money on a regular basis in order to collect or save the accumulated contributions after some period, has become very pervasive in Ghana. One group of people who have embraced it and are pursuing it religiously are small and medium scale savers and borrowers in the economy.

Due to the drudgery that small and medium savers and borrowers have had to endure in their bid to accessing credit from the formal banking system, most of them have resorted to the informal banking system prominent of which is microfinance (Alabi, 2007). According to Alabi (2007); for many petty traders, market women, apprentices, and artisans, microfinance is believed to be a trusted, reliable and friendlier means of getting started and also for sustenance as well as the growth of their businesses for economic development. Microfinance in some cases is believed to be the sole source of getting livelihood (world bank, 1994 cited in Alabi et al., 2007), especially in most sub-Saharan countries. These traders, market women, and artisans see microfinancing as a way of capital accumulation. By the nature of their work, they find it difficult, if not impossible to transact business with formal financial institutions. This has compelled them to embrace any form of microcredit facility including the micro-financing due to accessibility and flexibility the scheme offers in banking.

There is an extensive literature on the range of institutional arrangements employed by different countries, the types of services MFIs provide and the extent of outreach. However, there is agreement amongst the academic development communities about the fact that we still know very little about the impact of micro-financing for economic development in Ghana. Microfinance institution field operations have far surpassed the research capacity to analyze them, so excited about the use of microfinance for poverty alleviation is not backed up with sound facts derived from rigorous research. Given their current state of knowledge, it is difficult to allocate confidently public resources to microfinance development (Zeller and Meyer, 2007). Access to finance and capital mobilization is a key constraint to small business expansion.

Definition and Evolution of Microfinance Institutions in Ghana

According to Poth (2007), “microfinance is a bit of a catch-all term. Very broadly, it refers to the provision of a financial product targeted at low-income people. These financial services include credit, savings, and insurance products. A series of neologisms has emerged from the provision of these services, namely micro credit, micro savings and micro-insurance” In spite of pessimism expressed by various writers, optimists are resolute and maintain that microfinance, if well harnessed, would be of great success to poverty alleviation. This assertion was epitomized by Stenga (2010). In her research, she made the assertion that microfinance institutions offer credit mainly to the poor people as a way to alleviate poverty but, the trend has changed. There is a growing recognition that credit alone is not the only panacea of alleviating poverty as poor people need and use a variety of financial services including savings. According to Stenga (2010), like credit, savings help households turn a sequence of the small sum into useful lump sums. But, in real situations, households prefer to save rather than borrow because it is low cost and gives them more control over their lines. Moreover, savings is a safer approach, and one that is appropriate for all families as at times borrowing is a high-risk decision for poor families.

Saving services are at least more valuable than access to credit. With “savings, there is no risk of debt traps,” though it might take a long time to accumulate the amount money needed for investment as postulated by Stenga (2010). Indeed, the concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Susu, which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century. Research into this field has shown

that a microfinance institution has the ability to maximize profits if it is able to monitor its operations well in terms of granting of loans to the people and capital mobilization of the people who qualify the requirement of the institution in the country (Occasio, 2012). Over the years, the microfinance sector has thrived and evolved into its current state thanks to various financial sector policies and programs undertaken by different governments since independence. All over the world microfinance vary so much in their mission, strategies, and tactics that assessing their overall impact or comparing them to each other is not yet possible. At a more prosaic level, microfinance institutions (MFIs) usually operate in places where it is difficult to conduct research, places that are geographically isolated, technologically backward and educational disadvantage. Few MFIs have explicitly formulated their desired outcome. Without a clear theory of change, these MFIs invest resources, launch programs and track outcomes that have little to do with their ultimate goals (Luyirika, 2010). Many MFIs do not state it explicitly; instead, they say their goal is to give poor people access to credit. Access to credit will help beneficiaries establish profitable businesses that will, in turn, make them economically self-sufficient. We call these organizations; institutions centered MFIs because their theory of change often is building financial institutions for poor clients out of poverty. In keeping to this theory of change, institution centered MFIs aim to serve as many clients as possible and use their services to improve their business and in turn, their track financial outcomes such as loan repayment rate, loan sizes and a number of clients (Luyirika et al., 2010).

Although the word “finance” is in the term microfinance, and the core elements of microfinance are those of the financial discipline, microfinance has yet to break into the mainstream or entrepreneurial finance literature. Throughout the world, poor people are excluded from formal financial services; the poor have developed a wide variety of informal community based financial arrangements to meet their needs. In addition, over the last two decades, an increasing number of formal sector organizations have been created for the purpose of meeting those same needs. Microfinance is a term that has come to refer generally to such informal and formal arrangements offering financial services to the poor. Despite persistent complaints by the private sector of a squeeze in credit, there has in recent times been an explosion of finance in the microfinance sector. As of 31st March 2011, a survey of Apex bodies indicated that at least 200 MFIs operating under the money lenders ordinance had registered with the Association of Microfinance Companies. However, estimates of over 1000 companies exist throughout Ghana. Some individual susu collectors have registered with Ghana Cooperative Susu Collectors Association, but estimates of over 5000 exist nationwide (ARB Apex Bank, 2011). By the end of 2007, more than 150million clients worldwide had used the services of MFIs. More than 100million of them were among the poorest in their societies (African Renewal, 2011). At the end of 2008, MFIs in sub-Saharan Africa were reported reaching 16.5million depositors and 6.5million borrowers (African Renewal, 2010). In the light of increasing complaints by Ghanaian entrepreneurs, that lack of access to credit hinders growth, the proliferation of MFIs that provide entrepreneurs’ easy access to credit is a positive development; however, regulation needs to be formalized to minimize the risks to both lenders and borrowers. Money is lent to the individual but mainly groups with no security required except for reliance on the collective responsibility of the group, to ensure repayment (Achaligabe, 2011).

The expansion of credit is good for the national economy as it helps nurture businesses. Microfinance has existed, although mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four (4) decades, however, that serious global efforts have been made to formalize the financial service provider to the poor. This process began in earnest around the early to mid-1980s and had since gathered an impressive momentum. Today, there are thousands of MFIs providing financial services to an estimated 100 to 200 million of the world’s poor (Greer, 2008). There has been widespread consensus that the origin of the micro-credit movement is attributed to the work of Mohammad Yunus’ Grameen Bank which was founded more than 20 years ago in Bangladesh (Meade, 2006). Before 1997, academic journals published only an occasional article on microfinance, but since that time academic journals have published hundreds of peer-reviewed articles on the topic. Nonetheless, microfinance has yet to break into finance journals.

Overview of Microfinance Institutions in Ghana

Greer (2008) asserted that microfinance refers to a movement that envisions a world which has as many poor and near-poor households as possible have permanent access to an appropriate range of high-quality financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted to low-income clients. The concept of microfinance in Ghana is not new. There has always been the tradition of people saving and/ or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic Missionaries (Achiamaa, 2012). GHAMFIN is the country level network of microfinance institutions in Ghana formed in 1998. Its mission statement underscores its vision of being the umbrella network of all micro financial service providers in the country and promoting the development of Ghana's microfinance industry for its efficiency and effectiveness. Its membership is drawn from all the five categories of MFIs. These are:

1. Rural and Community Banks
2. Savings and Loans Companies
3. Credit Unions
4. Financial NGOs
5. Susu Collectors

All the apex bodies are also members of GHAMFIN with a special status which provides them with uncontested positions on the governing council of GHAMFIN. There were 60 paid up members as at the end of 2007. GHAMFIN operates in the following four key areas:

1. Advocacy to promote the ideals of microfinance and the interest of its members;
2. Capacity building, both human and non-human resources, of its members to improve their efficiencies, productivities, and effectiveness;
3. Performance benchmarking of microfinance institutions and the establishment of an industry data bank; and
4. Best practice information sourcing and dissemination for its members and other stakeholders.

GHAMFIN has become the "one-stop shop" for information on the microfinance landscape of the country. Consequently, its opinion, advice and data have been sought by the government and its agencies, missions from bilateral and multilateral development partners, investors, researchers and the media. GHAMFIN is a founding and active member of the African Microfinance Institutions Network (AMIN) and a member of the Small Enterprise Education Promotion (SEEP) Network based in Washington DC (Asiama and Osei, 2007).

Categories of Microfinance Institutions in Ghana

The microcredit era that began in the 1970s has its momentum to be replaced by a financial system approach. While microcredit achieved a great deal, especially in urban and near urban areas and entrepreneurial families, its progress in delivering financial services in less densely populated rural areas has been slow. Another major goal of the microcredit movement was to put the traditional money lender who typically charges at least 10% a month and often much more out of business. There is little evidence of progress towards this goal (Priya, 2006). Ghanaian microfinance institutions fall into three main categories, based on their legal status: formal, semi-formal and informal.

Formal Financial Institutions

Formal financial institutions are incorporated under the Companies Code of 1963 and licensed by Bank of Ghana under either the Banking Act of 2004 as amended by Act 738 of 2007 or the Financial Institution(Non-

Banking) law of 1993 (under review) to provide financial services which include provision of credit and savings mobilization from the public. Examples are as follows:

1. Rural and Community Banks (RCBs): Operate as commercial banks under the Banking Act, except that they cannot undertake foreign business and their minimum capital requirement is significantly low. RCBs operate as unit banks owned by both residents and non-residents members of the rural community through the purchase of shares and are licensed by the Bank of Ghana. They were introduced in 1976 to deepen the provision of financial services. As at 2009, there were 129 RCBs with about 560 outlets, spread across all the 10 regions of the country. RCBs finance their activities mainly through deposits from clients, borrowings, equity and concessionary loans from microfinance programs of the government and the development partners.
2. The Savings and Loans Companies(S&Ls): are owned by private individuals or entities that hold shares in the companies. These are licensed as non-bank financial institutions. Their capital requirement is much below that of commercial banks, but well above that for the rural and community banks. There 18 S&Ls, mostly located in the urban areas with limited *Informal Financial System* physical presence in the rural areas. (Asiama and Osei, 2007).

Semi-Formal Institutions

Financial Non-Governmental Institutions (FNGOs) and Credit Unions are considered as semi-formal institutions. Legally registered but not licensed by the Bank of Ghana. The Financial NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. They are multipurpose NGOs providing microcredit and some non-financial services. They are excluded from mobilizing savings from the public and hence have to use external funds for their microcredit operations. These funds are from donors, development partners, social investors and government programs. The largest FNGO has been borrowing from the market with a guarantee from its international social investor. There are about 42 FNGOs, of which about 20 are active. FNGOs in Ghana are small in size, most of them having less than 1000 clients. They operate in rural and peri-urban areas where the banks cannot reach. A few of them have urban operations. Credit Unions are registered by the department of cooperatives as thrift societies that do mobilize savings deposits from and give loans to their members only. Even though it has been provided under the Non-Bank Financial Institutions law to be regulated by the Bank of Ghana, a framework for their regulations is being developed. They are, however, being self-regulated by their association. The Credit Unions exist at workplaces, churches, communities; there are both rural and urban unions. There are about 400 credit unions (Asiama and Osei, 2007).

Informal Financial Institutions

The informal financial system covers a range of activities, including susu (which includes itinerant savings collectors, rotating savings and credit associations, savings and credit “clubs” run by operator companies, and scheme operated by Banks), Community based organizations and self-help groups. The individual itinerant Susu collectors have long provided an important form of savings in the West African sub-region. They collect daily amounts set by each of their clients (usually traders and artisans) and return the accumulated amount at the end of the month, minus one day’s amount as commission. Of late, some Susu companies have been set up with employees doing the collection. It is estimated that there are over 3000 Susu collectors nationwide of which 1200 are registered with the Ghana Cooperative Susu Collectors Association (GCSCA), the Apex body. (Asiama and Osei, 2007)

Savings Mobilization by Microfinance Institutions

Mobilization of savings has recently been recognized as a major force in microfinance. In the past, microfinance focused almost exclusively on credit; savings were the “forgotten half” of financial intermediation. The importance of savings mobilization has been highlighted in several papers in the context of microfinance. Few analyses have been shaped in order to take an in-depth look at the savings mobilization strategies, which are

employed by various institutions and are then compared to the results (Elser, Hannig, Wisniwskis, 1999). Microenterprises can play a significant role to foster savings among the poor population, with considerable benefits both savings for savings and for the programs. According to Asiama (2005) “Domestic savings provide the assets for the economy’s investment in the future production. Without them, the economy cannot grow unless there are alternative sources of investment”. People’s propensity to save varies significantly. Exploring issues related to the saving mobilization, among the poor people who are self-employed in productive activities, is one of the important purposes of this study

Theory of Microfinance Institutions in Ghana

Microfinance is one major approach to offering financial services to the majority mainly poor people in Ghana. The expansions of credit are good for the national economy as it helps nurture business. However lessons can be learned from the Indian state of Andhra Pradesh, Mr. Thompson noted, in India, the head of a network of private microfinance companies predicted that India’s roaring private microfinance industry would hit the buffers. He was worried by the reckless lending and feckless borrowing by microcredit companies and villagers respectively. This has now led to borrowers defaulting on payments and taking their lives. The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of ‘social investment’ for the poor (Yunus, 2007). Microfinance appeared hundreds of years ago in rural and poor communities to offset lack of savings and credit institutions and avoid expensive money lenders. It provides small scale financial services to poor rural and urban communities. According to Aryeetey (2008), a lot of the initial growth that was observed in the informal sector in the mid-1990s is continuing in many countries. He advances that, in Ghana, for example, it is now common to find that large number of MFIs establishing offices at various points in cities, towns, and villages where their clients can actually walk to make deposits and engage in other transactions. The business of informal savings collection is now being institutionalized with better record keeping and a fixed address as well as location.

The Role of Microfinance Institutions

Microfinance is one of the critical dimensions of the broad range of financial tools for the poor. Globally, MFI has emerged as a leading and effective strategy for poverty alleviation reduction with the potential for far-reaching impact in transforming the lives of poor people. Microfinance can facilitate the achievement of the Millennium Development Goals (MDG) as well as National Policies that target poverty reduction, empowering women, assisting sustainable access to microfinance help alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering to make the choice that best serves their needs (Achaligabe, 2011). Although microfinance is not a panacea for poverty reduction, and its related developmental challenges, when properly harnessed, it can sustainably contribute through financial investment leading to the empowerment of people which in turn promotes confidence and self-esteem, particularly for women. This was also enshrined in the international year of microfinance, 2005, which was to stress the importance of access to finance and particularly microfinance (United Nations, 2005).

Microfinance Institutions Lending Model

Microcredit is loaned to an entrepreneur by a bank or other institution and is often offered without requiring collateral from a group or an individual. Some of the main characteristics of the microcredit lending model include the following (ibid):

Group Lending

This type of lending scheme is known as solidarity group lending or village banking, and it is a self-monitoring mechanism that allows individuals to gain access to microcredit by securing collateral through group savings or guaranteeing a loan through group repayment pledge. In this lending model, the incentive to repay is based on peer pressure. If a group member defaults, the other group members make up the payment amount.

Individual Lending

This type of lending practice focuses on providing microcredit to one client at a time and does not require collateral or a guarantee for the loan. Many microcredit loans are working capital loans used by the borrower to purchase additional inventory for their business, such as flour for the food entrepreneur or to acquire equipment. Over time, the issues of microcredit have expanded to the provision of other financial services not available to poor borrowers in the informal sector (Luyirika, 2010). Microfinance has attempted to meet the needs of poor borrowers by offering many services such as loans, savings, transfer services (remittances), insurance, education and skills training. Many financial institutions can provide these services, including non-governmental organizations (NGOs), cooperatives, credit unions, private commercial banks, non-bank financial institution and some state-owned banks. In many countries, microfinance programs lend predominantly to poor women who are self-employed in the formal sector. In Grameen Bank in Bangladesh, for instance, 97% of their seven million borrowers are women. One of the reasons for focusing on providing credit to women is that women are believed to be poorer and credit constraint than men (Burjorjee, 2005). In this context, microfinance has been used as a tool to provide access to financial services to women as well as a way to help them become entrepreneurs, empower them, induce a higher level of mobility and increase political participation (Hashemi, 2006).

Objectives of Microfinance Institutions in Ghana

The objectives of microfinance institutions in Ghana are as follows:

1. Provide banking facilities to the poor.
2. Prohibit the exploitation of the poor by money-lenders
3. Create opportunities for self-employed for the unemployed in rural Ghana and Ho municipality to be specific.
4. Enable the disadvantaged, particularly women from the poorest households to be self-sufficient.
5. End the vicious circle of “low income, low savings, and low investment,” and create a virtuous circle of high income, injection of credit, and investment (www.grameeninfo.org/index).

As microfinance becomes more widely accepted and moves into the mainstream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs associated with it. Microfinance seems to be rooted in a local culture which is more participatory because clients are readier to be identified with thus involved in making financial decisions and actions that shape their life.

The unique features involved are:

1. It is simple and easily adapted to illiterate group members.
2. Promotes group solidarity, learning and establish a vehicle for addressing community development issues.
3. Does not require physical infrastructure.
4. Does not rely on an infusion of outside funds.

Microfinance institutions in Ghana have a strong savings orientation, and greater role is played by Non-Governmental Organizations (NGOs) (Amemor, Adjety, and Amoa-Wilson, 2008).

Social Impact Analysis of Microfinance in Ghana

It aims at gauging the wider impacts of microlending on the lives of the poor. This wider impact can be taken to be a “Public Good” that benefits the sector in its entirety; the MFIs, the donors, borrowers, and even the non-borrowers. Regardless of their scale, outreach, location and the type of client, all microfinance interventions share the common goal of human development, specifically the economic and social uplifting of those for whom the program is targeted. From the underlying objective, there is a diverse range of secondary or intermediate outcomes with powerful and far-reaching effects, the resulting “impact, wider impacts” or externalities (Khalily, 2004; Zohir and Matin, 2004), spilled over impacts (Khandker, 2008) and intermediaries (Hulme, 2005). Irrespective of varied terminology used to depict such secondary outcomes, the fundamental rationale and purpose remain identical. These secondary effects go beyond merely influencing the lives of individuals alone but also impact entire households, communities and the society at large, thereby eventually having a multifarious impact on the beneficiaries in the broader perspective. Khalily (2004) argues that these consequential, secondary and intermediate outcomes have a compounded impact on the end outcome of poverty reduction program. The rationale in advancing microloans to the poor is to improve their liquidity constraints as any additional flow of external financial resources be it from MFIs, NGOs or even an individual will relax the intensity of the constraints (Khalily 2004). The end outcome, as well as the primary objective of all MFI intervention, is poverty reduction. By convention, poverty reduction is perceived from the economic point of view alone.

Key Characteristics of Microfinance Scheme in Ghana

Client Features

In a study commissioned by the Ministry of Finance on the Ghanaian MFIs best practices, it was discovered that women predominated the clients of MFIs. The report indicated that women constitute 75% of total microfinance clients (Chord, 2006). In addition to the gender factor, the microfinance schemes cut across a wide range of socio-economic or occupational groups such as farmers, petty traders, artisans, food processors and salaried workers. These people are generally within the low-income bracket. The practice can also thrive in both rural and urban settings. On that score, the scheme is inherently universal, making it a potentially good outreach tool for microfinance service delivery (Chord, 2006).

Deposit Collection Strategy and Safety

Collectors move around the active site of clients (marketplace, workplace, homes among others) in order to ensure proximity to savers. This feature is unique to MFIs as it enhances outreach performance. Also, daily collection of small savings from microfinance clients makes it quite flexible and suitable for the poor. Perhaps this explains why the method has succeeded in targeting market women, the majority of whom are poor (Chord, 2006). In terms of collection, two main methods have been identified: Independent /Private (non-salaried) collectors and Salaried/Commissioned staff. Under the independent collectors’ method, the collector undertakes the daily door-to-door collection of agreed/fixed amount from clients for a cycle usually one month. In each cycle, the collector’s fee for rendering this service is a day’s deposit of each client. The major risk inherent in dealing with independent collectors is the possibility of the collectors absconding with contributions. However independent collectors have been found to be more aggressive in reaching out to more potential savers since their profit is contingent on the number and per capita daily contributions of their clients. Under salaried/commissioned staff deposit collection method, the collecting agents are full-time employees of MFIs who do a door-to-door collection for and on behalf of the MFI for basic salary. This method is usually preferred to the private one because it involves less risk (Chord, 2006).

Strength and Weaknesses of Microfinance Schemes in Ghana

Chord (2006) in a draft report on the inventory of Ghanaian microfinance best practices cite the following strengths of the microfinance scheme in Ghana:

1. Flexibility in the amount that one decides to contribute allows even the poorest to contribute.
2. The door-to-door savings collection strategy at workplaces and homes allows many more people to be reached.
3. Easy modification and adaptability of the methodology; for instance, the practitioner may base it on group concept or individual concept. That notwithstanding, the central feature remains unchanged.

The major weakness identified by Chord (2006) is the risk of losing deposits as a result of the fraudulent disappearance of the collectors.

Conditions for Success of Microfinance Schemes in Ghana

Comparing the strength and weaknesses of the microfinance schemes in Ghana, Chord (2006) argues that, it is clearly a good system and can be adapted to suit varying settings. However, for microfinance to function effectively certain conditions must be satisfied, and these conditions are as follows:

1. Proximity to clients via door-to-door collection strategy.
2. Flexibility on the amount that one wants to contribute.
3. There should be an assurance of safety/security of deposits
4. Well trained and motivated customer intermediaries/agents
5. Shorter cycle (3months in this case) for contributors to qualify for a loan.
6. Aggressive promotion of the scheme/product through print and electronic media.
7. Effective supervision and control of collection agents to avoid fraudulent practices.

Empirical Review

Guruswamy (2012) studied the role of MFIs on poverty for economic development in Ethiopia and said that microfinance could be a critical element for an effective poverty reduction strategy mostly for developing countries. Particularly in Ethiopia, there is lack of improved access and efficient provision of savings, credit and insurance facilities to develop their businesses, enhance their income earning capacity, and enjoy an improved quality of life. Guruswamy (2012) used both primary and secondary data via self-administered questionnaires and interviews for his study and used savings and credit as his dependent and independent variable respectively. The study reveals after information collected from both managers of MFIs and clients that, MFIs have changed the life of the poor in a positive way. Despite these achievements, his study's finding also reveals that some conditions like high-interest rates, loan application processes and approval, collateral, service delivery and lack of close relationship between institution management and the borrowers have been limiting factors for poor people to access the MFIs services. In another study to examine the impact of microfinance on rural farmers in Malawi, Aguilar (2006) reported that farmers who borrow from MFIs were no better off than those who did not borrow. Like Aguilar (2006), Ausburg (2008) postulates that there is the need for a plus component (training in financial management, marketing and managerial skills and market development) for microfinance to succeed. Buckley (2006) studied micro enterprises in three African countries (Kenya, Malawi, and Ghana), and questions whether the extensive donor interest in microenterprise finance really addresses the problem of micro-entrepreneurship or just offers a quick fix to the problem. The study's finding suggests that the fundamental problem is lack of infrastructure rather than the injection of capital.

On the other hand, Chemin (2008) using a machine strategy to examine the impact of microfinance in Bangladesh reported a positive, but lower than previously thought, effect on expenditure per capita and school enrolment for boys and girls. Brune (2009) conducted a research on the role of microfinance for economic development. He used the saving traps in macroeconomic growth model for his study. With this model, Brune (2009) explains that a country does not grow in the long run unless it passed a lower bound capital accumulation level. He used descriptive statistics, financial data, and data on outreach during the study. He had done by using the mix market data covering all geographic regions in the developing world. He classified MFIs according to their legal, institutional form and network affiliation. Brune (2009) used credit and savings as the

response variables for his study. He argued that adverse savings behavior and low savings present crucial reason for a country being kept in a poverty trap. He postulates further that MFIs represent one mechanism to increase both capital accumulation and savings despite a low initial level of both in saving trap model. MFIs can direct their client's saving behavior through the provision of microcredit and small loans which positively affect disposable income and hence savings. Brune (2009) used average savings and loans as dependent and independent variables respectively. He argued that if both are considered as appropriate proxies for economic development and one between both of them, then the equations should be considered as simultaneous equation system to obtain unbiased estimates for savings, loans, and income. He further postulates that based on the empirical analyses he carried out shows that MFIs have in fact a positive influence on economic development in a developing country like Ghana.

Based on the descriptive analyses carried out by Brune (2009) on selected MFIs, it is striking that the numbers of employees, as well as clients, have been strongly increased during the last decade, implying increasing demand for microfinance services. Brune (2009) concluded the study by explaining that the perspective for MFIs in the future can thus be gauged as fairly positive. The concept he said is most likely independent from differences in economic, political and cultural factors. Particularly against the lack of theories to explain them comprehensively, MFIs are a good mechanism to enhance economic development despite imperfect knowledge of the interdependence of underlying reasons.

Brune (2009) suggested that further studies on the topic should focus on MFIs, including longtime series, and use it to conduct panel studies.

Methodology

The researchers used questionnaires and interviews for data collection. The questions were designed to make the purpose of the study successful after the results were ascertained. The questionnaires were used to obtain quantitative data for the research. It was also used because it was specific for the respondents to explain the exact situation without giving room for unnecessary and irrelevant information for the study. The study also gathered information from books and current articles, research literature, journals and thesis related to secondary sources of data for the study.

The selection of sample size was determined by a number of small and medium business clients and staff of microfinance institutions which was based on the formula below:

$$n = N / (1 + N (\alpha)^2)$$

Sample frame (Total number of microfinance clients)

Sample frame (Total number of clients) = 100

$$n = N / (1 + N (\alpha)^2)$$

Where; n = Sample size

N = Total number of microfinance clients

α = Level of confidence is 95 percent

$$\text{Therefore } n = 100 / (1 + 100(0.05)^2) = 100 / 1.25 = 80$$

Therefore, a total of (80) respondents consisting of the microfinance clients and staff in Ho township was sampled from the target population. This decision was taken as a result of the limitations due to time and cost constraints on the researchers. This particular sample size was selected because it was easier to manage and it was enough to generate findings as well as to generalize the findings to a bigger population. The sample size also took into account the fact that the respondents were beneficiaries of two or more microfinance institutions

(MFIs), thus getting more would imply interviewing the same people under different institutions. The hundred (100) respondents comprised of seventy (70) respondents who were selected from existing MFIs in Ho as the direct beneficiaries and thirty (30) key informers of whom ten (10) were loan officers in the MFIs while the rest twenty (20) were heads of departments at the MFIs. Out of the population for the primary data, the study employed both probability and non-probability sampling using simple random and purposive sampling respectively. Sampling was used to select the respondents from each microfinance institutions (MFIs). The representative sample allowed the researchers to take the information obtained from the small sample and generalize it back to the entire population. In the study, the sample comprised the respondents who were used to generate data that establish specific conclusions and recommendations. The sample comprised of women and men of beneficiaries of MFIs and employees of MFIs. Data collected from the questionnaires were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentages. A quantitative method was used in the analysis of the primary data collection. The quantitative data were analyzed using Statistical Package for Social Scientists (SPSS) and Microsoft Excel. The findings were presented in the form of tables, charts, and figures.

To measure the level of Capital Mobilization for Economic Development of both Men and Women, the following variables were used: reasons for saving with microfinance institutions, income levels and capital expansion and the method of analysis that was employed was regression analysis. Regression analysis was employed because it examines how effectively one or more variables have an effect on the other, which is the study describes how funds (from MFIs) have contributed to Capital Mobilization for Economic Development. This involved grouping answers of similar nature or meaning into one set of answers and giving them a particular number called a code. The coding assisted the researchers to get the total number of responses for each of the questions. This also helped to tabulate the data using figures and numbers obtained.

Data Presentation and Analysis

Demographic Information

Here, vital information about the respondents was analyzed. These include their Sex (Gender); Age and Occupation.

Table 1.1: Sex Distribution

Sex	Frequency	Percent
Male	28	40.0
Female	42	60.0
Total	70	100.0

Table 1.1 above shows the sex distribution of the respondents that represented the population. It can be construed that the 60% of the respondents are females whereas the rest 40% accounted for the sex group of males. They have their responses as 42 and 28 respectively. Therefore, the study is skewed to the female side.

Table 1.2: Age Distribution

Age Group	Frequency	Percent
18-25years	5	7.1
26-35years	30	42.9
36-45years	21	30.0
46-55years	10	14.3
55+years	4	5.7
Total	70	100.0

It can be seen from Table 1.2 above that 72.9 percent of the respondents who are engaged in Small and Medium Enterprise businesses were youth between the ages of 26 to 45years (42.9% +30.0%). Their total response rate is 51 out of 70. It is also interesting to note that the age group of 18 to 25 years was also taking SMEs businesses seriously because they also have a response rate of 5.

Table 1.3: Educational Background of Respondents

Educational Level	Frequency	Percent
MSLC/JHS	15	21.4
SHS/Vocational/Technical	38	54.3
Tertiary	17	24.3
Total	70	100

From table 1.3 above, it can be construed that the 54.3% of the respondents are Senior High School (SHS)/Vocational/Technical school leavers (38 of the responses) whereas the rest of the responses accounted for Middle School Leavers/ Junior High School Leavers and Tertiary Graduates. They have their responses as 15 and 17 respectively. This is further illustrated in figure 1.1 below.

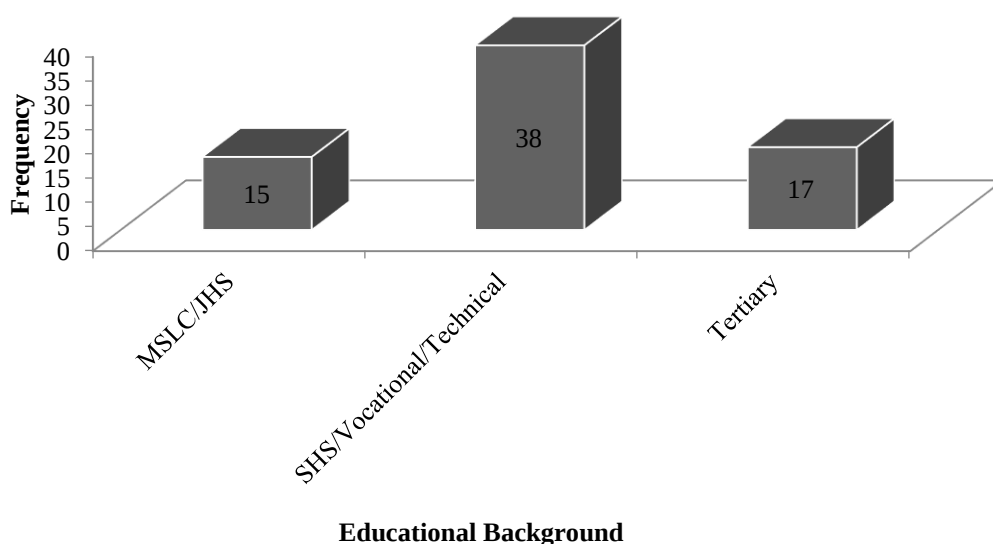


Figure 4.1: A Bar Chart Depicting the Educational Background of the Populace

Table 1.4: Occupational Distribution of Respondents

Occupation	Frequency	Percent
Public servant	15	21.4
Petty trader	33	47.1
Artisans	22	31.4
Total	70	100.0

Table 1.4 above gives the line of business of the respondents, as shown, 33 representing 47.1 percent were engaged in petty trading, 22 representing 31.4 percent were also engaged in partisanship, and 15 representing 21.4 percent were though public servants but having other private businesses running.

It is therefore imperative to say that majority of the respondents are petty traders and this is further illustrated in figure 1.2 below.

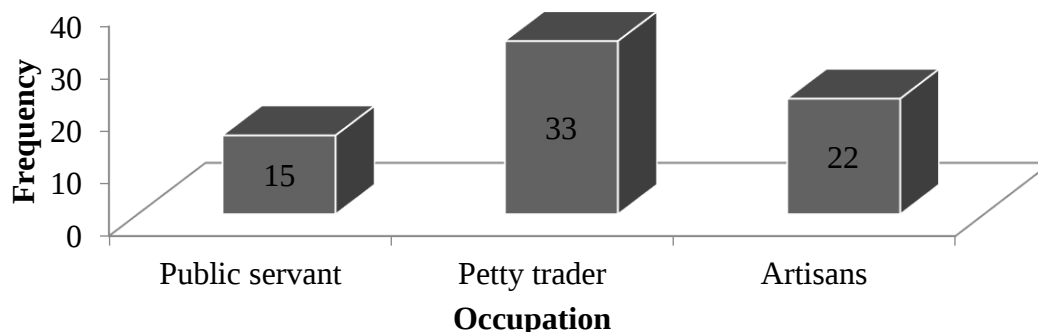


Figure 1.2: A Bar Chart Depicting the Occupation of the Respondents

Table 1.5 below suggested the cross tabulation on the time that the respondents frequently save and the reasons why they save at that time. The table suggested that 59 of the responses accounted for the respondents who save because of making regular small deposits, followed by 55 of the respondents they save because they wanted to have easy access to a loan. However, 52 of the responses also accounted for respondents who save because of the flexible working hours of their Microfinance Institutions (MFIs).

Thirty-eight (38) of the respondents save on daily basis followed by twenty-three (23) who saves on a weekly basis. Seven (7) each of the responses accounted for those who save fortnightly and monthly respectively

Table 1.5: Cross tabulation on Time of deposit and Reasons for Savings

		How frequently do you Save				Total
		Daily	Weekly	Fortnightly	Monthly	
Reasons for Saving	Easy access to loans	37	15	4	3	55
	Flexible working hours	30	16	4	6	52
	Ability to make regular small deposits	32	18	7	7	59
	others	1	0	0	0	1
Total		38	23	7	7	70

In addition, thirty-seven (37) of the respondents who save on daily basis were doing so because they wanted to have easy access to loan followed by thirty-two (32) who also saves on daily basis also do so because of the ability to make regular deposits and thirty (30) of the respondents also save daily because the flexible working hours of the MFIs. However, one (1) of the respondents claims he saves daily because of the good customer relationship exhibited by the MFI.

Table 1.6 Cross tabulation on Time of deposit and How long it takes to Benefit from the Deposits

		How frequently do you Save				Total
		Daily	Weekly	Fortnightly	Monthly	
time to benefit from your contribution	Quarterly	24	8	4	4	38
	Semi-Annually	14	11	3	2	27
	Annually	0	4	0	1	5
	Total	38	23	7	7	70

From our output above, the majority (55) of the customers who responded to the questionnaire have to save daily and weekly because of the benefits derived from these MFIs. This implies that (24+8 and 14+11) of the respondents benefit from their contributions quarterly and also Semi-Annually. This shows that those who save on daily basis always benefit from the contributions quarterly and somewhat semi-annually. Few of the respondents who save on weekly basis benefit from the contributions annually.

Table 1.7: Currently Having Account with other MFIs?

Response	Frequency	Percent
Yes	40	57.1
No	30	42.9
Total	70	100.0

It appears that the distribution from table 1.7 above is somehow skewed to respondents who are currently having an account with other MFIs. Thus about 57% of the times agree to it that they have an account with them.

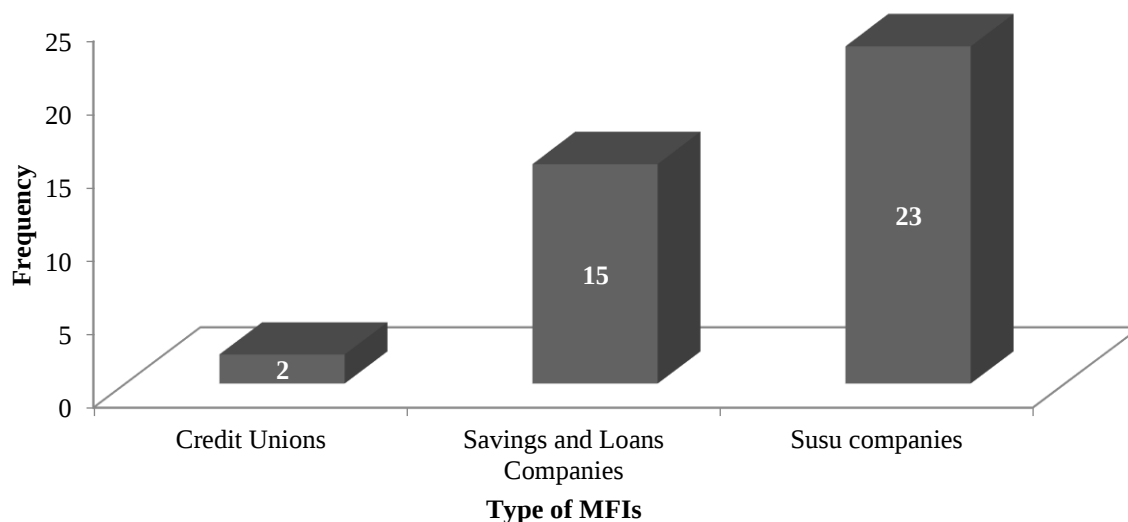


Figure 1.3: A Bar Chart is illustrating the type of MFIs the Respondents Save with.

Responses to the question about the type of MFIs appears to be highly rated by the majority of the respondents. The bar chart above has shown that more than half of the respondents save at Susu companies. This is due to the fact that most of the respondents are having an account with these MFIs.

Table 1.8: Still Maintain Accounts with the Traditional Banks?

Response	Frequency	Percent
Yes	22	31.4
No	48	68.6
Total	70	100.0

The distribution (table 1.8) above appears that majority of the respondents do not maintain an account with the tradition banks and this could be because of the benefits being derived from these MFIs. Thus, less than half of the respondents, about 31% of them to maintain an account with them. Hence only a few of them still maintain their accounts with the traditional banks. It appears from the concerns raised by the respondents that **94** percent

terminate their accounts with the traditional banks because of the difficulty in accessing credit from them whereas 7 percent claim because of the unnecessary deductions on their accounts.

Table 1.9: Do you deposit Regularly?

Response	Frequency	Percent
Yes	70	100.0
No	0	0
Total	70	100

It appears that the distribution is positively skewed to respondents who deposits regularly. This means 100% of the time respondents save regularly, and this could be attributed to the benefits they derive from these MFIs.

Table 1.10: Do your Deposits Entitled you to take Loan?

Response	Frequency	Percent
Yes	69	98.6
No	1	1.4
Total	70	100.0

From table 1.10, it is apparent that respondents who deposit with MFIs are entitled to take a loan. Thus about 98.6% of the time, respondents agree to it that they have access to the loan which is one of the benefits enjoyed from them. Also, table 1.11 below, suggested that the respondents benefit from their contributions mostly on quarterly basis whereas quite a few number also on a semiannual basis. They have a response rate of 54.3 percent and 38.6 percent respectively. This lends credence to the concerns raised by the respondents on why they no longer operate accounts with the traditional banks.

Table 1.11: Time it takes to benefit from your Contributions?

Time	Frequency	Percent
Quarterly	38	54.3
Semi-Annually	27	38.6
Annually	5	7.1
Total	70	100.0

Table 1.12: Time for Loan Repayment

Response	Frequency	Percent
Valid		
Six (6) months	53	75.7
One (1) year	16	22.9
<i>Total</i>	<i>69</i>	<i>98.6</i>
Missing		
System	1	1.4
Total	70	100.0

Table 1.12 above gives the time for loan repayment of the respondents, as shown, 53 representing 75.7 percent repay their loans in six months, and 16 representing 22.9 percent repay their loans in one year. The missing value accounted for the respondent who claims in table 1.10 above that his deposits did not entitle him to take a loan.

However, the following were the concerns raised by the respondents to be addressed on the operations of the MFIs and other related informal financial sector. They include:

- Extension of repayment duration to at least one year.
- Intensive regulations of the MFIs activities by the government.
- Disbursement of loans on time.
- Reduction in the high-interest rate charged by the MFIs.
- Reduction in the processing fee charged by MFIs.
- Increase the number of mobile bankers.

Background of Microfinance Institutions

Thirty (30) microfinance institutions were sampled to study how they operate and how benefits from their operations.

It was found that majority of the selected thirty (30) MFIs began their business in the 2000s and few in 90s and 80s. They were set up by a different group of companies/individuals for various objectives such as:

- To provide timely and attractive financial solutions in a friendly and highly environment.
- To provide financial services to SMEs whenever and wherever.
- To provide basic and simple financial services to the lower end of the society.
- To encourage savings and investment and give them access to financial intermediaries not open to individuals in the traditional banks.

The MFIs were found to be providing all types of services such as the Savings deposits; Deposits that can be withdrawn at any time; Demand deposits; Susu; and credit facilities. It can be construed that majority of the services were mainly Susu services whereas Demand deposits being the least. This is further illustrated in figure 1.4 below.

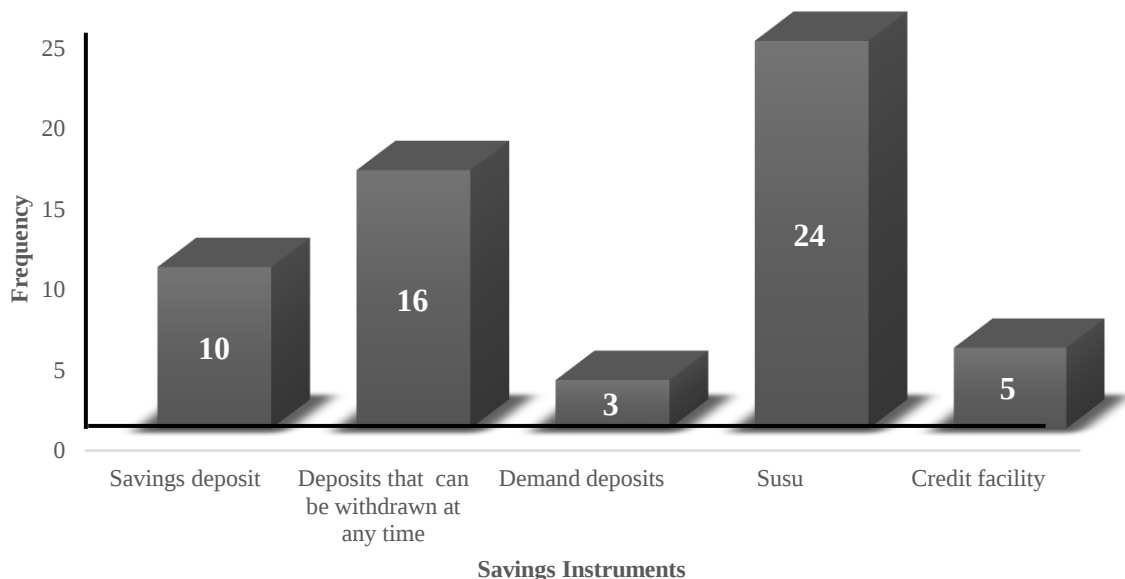


Figure 1.4: A Bar Chart Illustrating Savings Instruments in the MFIs.

The MFIs sampled in the municipality have various forms of clients as their target market. This includes;

- Public servants
- Small and Medium Scale Enterprises
- Petty Traders
- Service providers

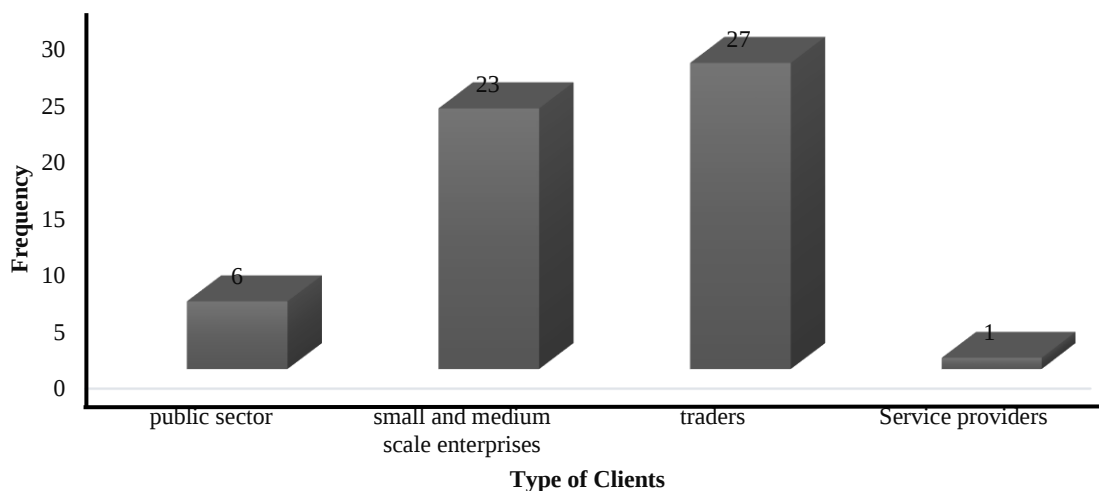


Figure 1.5: A Bar Chart Illustrating MFIs Target Market.

Figure 1.5 above shows that 27 of the target market for the MFIs are traders followed by the SMEs with a response rate of 23. This lends credence to the earlier assertions in figure 1.4 above that the major savings instrument is Susu and deposits that can be withdrawn at any time. The methods employed by the MFIs for deposits collection from the clients are unanimously mobile banking teams. Only on few occasions that customers walk to the banking hall to make deposits. These MFIs operates from Monday to Fridays between the hours of 7:30 am to 4:30pm. However, few of the MFIs operate on Saturdays and Sundays too for only three (3) hours.

Innovative Schemes to attract contributors by MFIs

MFIs also put in place innovative schemes to attract more contributors to their various institutions. These include Access to credit; Access to money deposited; and Taking financial services to the doorsteps of their clients. A government institution such as MASLOC which are not into deposits collection but give credit facilities, its innovative schemes was to encourage clients to undertake poultry farming, car loans initiative, outboard motors for fisher folks and tricycles for conveying goods.

Deposits Contribution Assessment of the Clients by MFIs

It can be accessed from figure 1.6 below that 53 percent of the clients contribute on a daily basis followed by 39 percent on a weekly basis and 8 percent on a monthly basis. This has lent credence to the assertions in table 1.5 and 1.6 above on how often the clients have been making deposits.

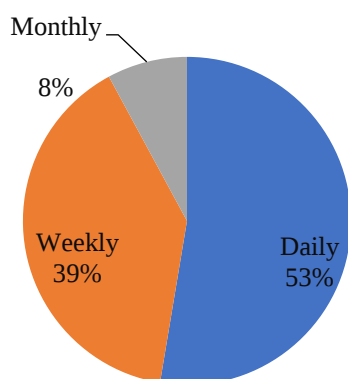


Figure 1.6: A Pie Chart Depicting How Frequently MFIs Think Customers Contributes.

Largest Categories of Borrowers from the Sampled MFIs

Figure 1.7 below illustrates the largest borrowers from the MFIs. It is apparent to note that the petty traders and the SMEs were the major beneficiaries of credit facilities from the MFIs. They have the response rate to be 58 percent and 38 percent respectively. Some of them who benefits from MASLOC, for instance, are farmers, seamstresses, and Agro-Processing firms.

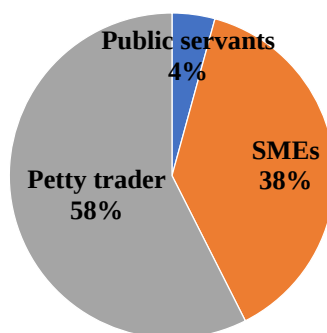


Figure 1.7: A Pie Chart Depicting the Largest Borrowers from the MFIs.

Evaluation of Credit Request

Before MFIs grant their clients credit, there are some key factors that are considered. These include among others reported by the MFIs in order of importance:

- Track record (repeated borrowing)
- Feasibility Studies
- Collateral
- Financial statements of clients
- Character-based assessment

Table 1.13: Factors considered in evaluating credit requests.

Factors	Responses	Percent
Feasibility studies	19	25.7
Collateral	19	25.7
Track record (repeated borrowing)	20	27
Character-based assessment (selection based on personal relations)	7	9.5
Financial statements of clients	9	12.2
Total	74	100

Majority of the responses from Table 1.13 above offers the factors which are considered in evaluating credit requests. The table suggested that the MFIs takes track record (repeated borrowing), feasibility studies and collateral as foremost factors considered before granting loans whereas character-based assessment is the least the MFIs consider. In addition, the MFIs rely on the information on potential borrowers before loan decisions were made through the following means in the order of preference:

- Transaction in another market;
- The company's own records;
- Community and neighborhood ties; and
- Payslips

Table 1.14: Duration of Loan Application and Disbursement.

	Response	Frequency	Percent
Valid	one week to a fortnight	8	26.7
	one month	20	66.7
	Total	28	93.3
Missing	System	2	6.7
Total		30	100.0

The output of table 1.14 above, reveals the duration of loan application and disbursement in the various MFIs in the municipality. Greater part of the MFIs takes close to one month for loan application and disbursement as indicated by the output, thus 20 representing 66.7% of the time.

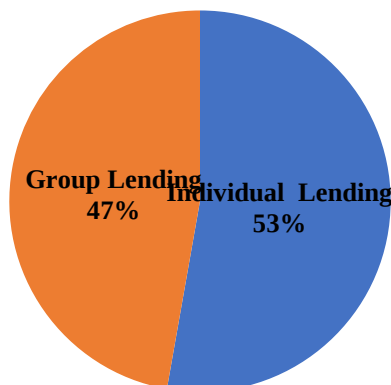


Figure 1.8: A Pie Chart Portraying the Lending approaches practice by MFIs

Figure 1.8 above portrays the lending approaches practice by MFIs. It is ostensibly clear that individual-based lending was the most lending approach practice while the group based on the least practice by the MFIs. They have a response rate to be 53 percent and 47percent respectively.

Table 1.15: Duration of loan repayments

	Response	Frequency	Percent
Valid	Short term	21	70.0
	Medium term	6	20.0
	Total	27	90.0
Missing	System	3	10.0
Total		30	100.0

The output of table 1.15 above provides the duration of loan repayment of the respondents, as revealed, 21 representing 70.0 percent of the MFIs repayment period for loans were in the short term, and 6 representing 20.0 percent were in the medium term. Figure 1.9 below depicts a bar chart on the MFIs possible means of protection against loan repayment default. It is apparent that the most protection way of protection used by the MFIs is the lending against cash security followed by the lending against collateral. The other methods used by these MFIs are listed below: pledge of household items, postdated cheques, and guarantors.

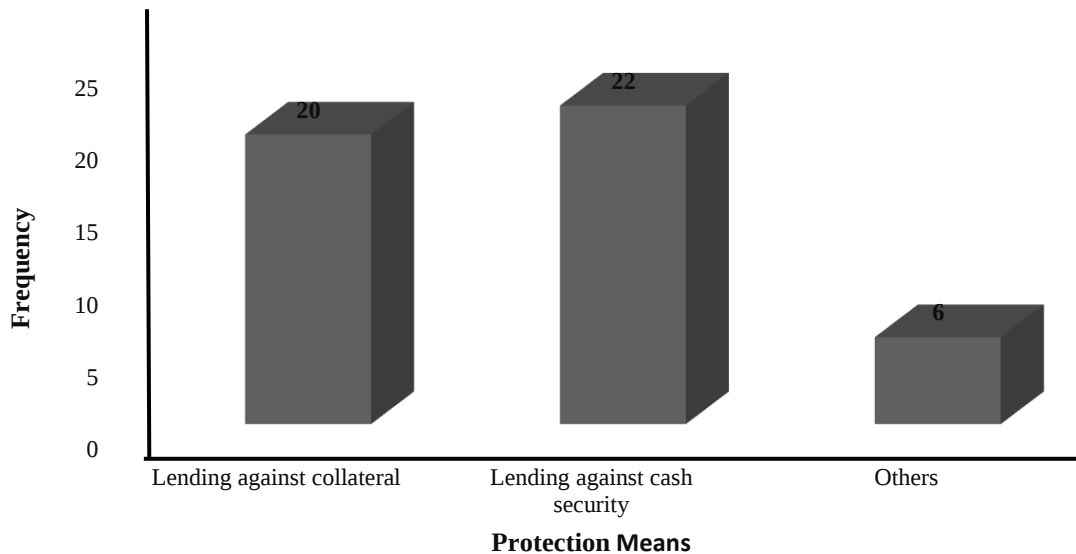


Figure 1.9: A Bar Chart Explaining MFIs protection against possible loan default.

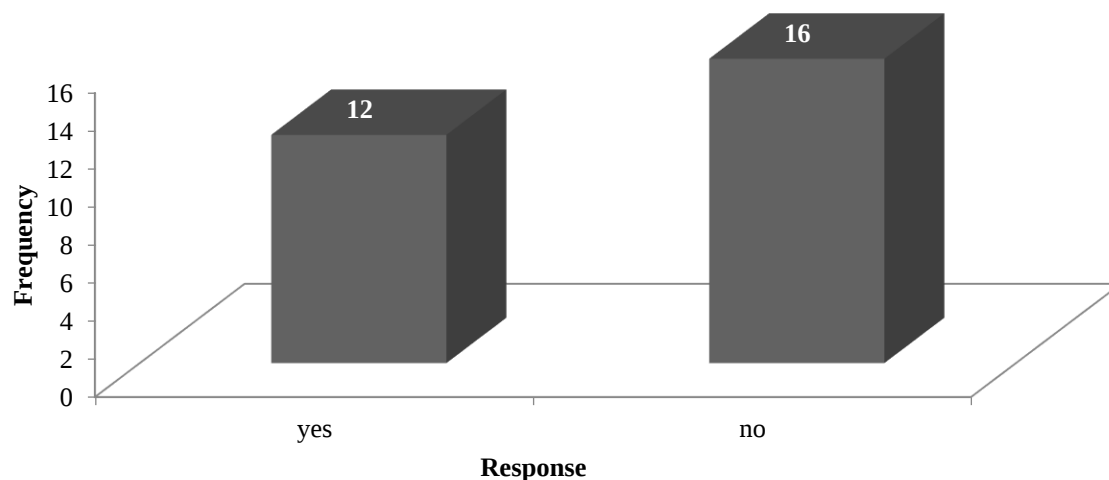


Figure 1.10: A Bar Chart depicting whether MFIs give Loan to Non-savers

Somewhat number of MFIs gives a loan to non-savers who are sometimes petty traders, some SMEs, market women and some public servants as shown in figure 1.9 above. However, the MFIs who do not give to the non-savers were a result of:

- No collateral
- They are not trustworthy and commitment level very low

- Difficulty in loan recovery
- They are not even having proper accounting records their businesses

Loan Default Rate and Its Risk Management

MFIs in the Ho Municipality have attested to the fact that their loan default experience falls within the interval 5 to 40 percent. Majority of them have recorded a low default rate of between 5 to 15 percent over the years. However, there were some measures put in place to reduce the credit risk or default risk by the MFIs in the Municipality. These include in order of importance as shown in figure 1.11:

- Collateral strengthen repayment incentives
- Lending for a purpose that will provide the ability to repay
- Small loan amounts
- Shorter loans
- Credit rationing

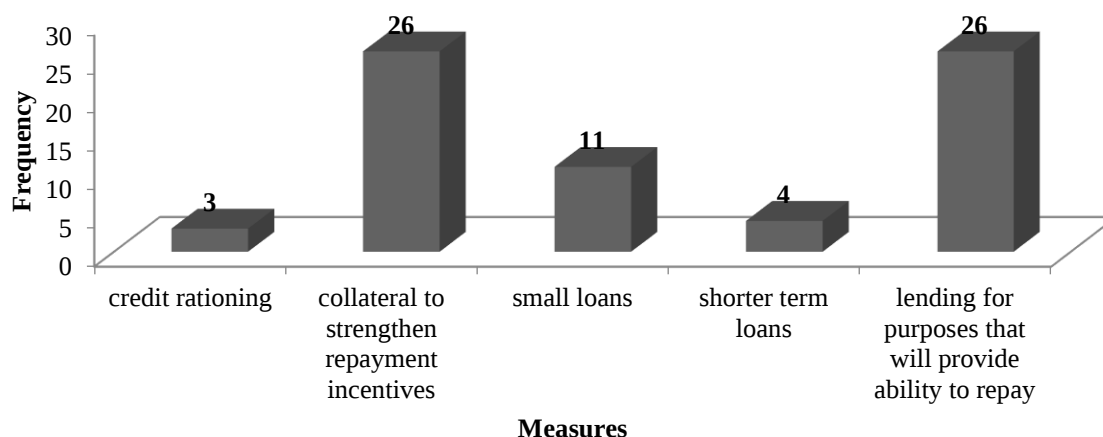


Figure 1.11: A Bar Chart Illustrating the Measure taken by MFIs to reduce Credit Risk

It is also interesting from the output in figure 1.12 that 66 percent of the MFIs manage their interest rate risk by transferring it to the customers whilst 34 percent spread it on small term loans.

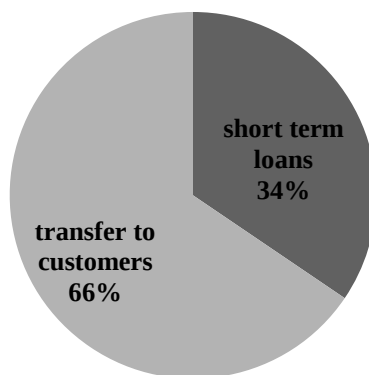


Figure 1.12 A Pie Chart Illustrating How MFIs Manage Interest Rate Risk.

The maturity profile for the majority of the MFIs in the municipality is a mainly short-term (6 months) whereas few were for a medium term or within a year. They have their frequency of 21 and 9 respectively.

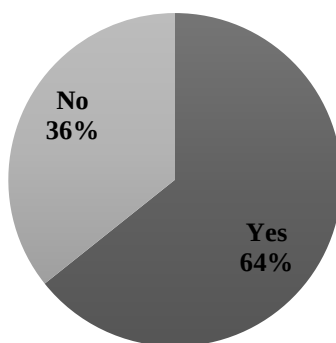


Figure 1.13: A Pie Chart Illustrating whether MFIs face competition in their area of Operation.

It is apparent to note from figure 1.13 above that 64 percent of the MFIs agreed to the fact that they do face competition from other MFIs in their area of operation. However, they have been managing those competitions through the following means:

- Advertisement
- Education and sharing of t-shirt
- Good customer relation
- Reduced interest rate
- Prudent business ideas are given to clients through financial advice
- The offering of innovative products and taking the product to the doorsteps of the clients
- Improving the standard for credit assessment
- Non-savers accessing of credit

MFIs views on the microfinancing and capital mobilization for economic development were:

- It creates a platform for economic emancipation and reduction of poverty in the society as a whole;
- It is also a source of capital for SMEs leading to economic development in terms of job creation and payment of fees; and
- Easy access to loan

Summary of Findings, Conclusions, and Recommendations

Summary of Key Findings

These conclusions were drawn from the research findings as guided by research objectives and questions. The general objective of the research was to assess the contributions of microfinance institutions (MFIs) as a means of capital mobilization for economic development.

The role of MFIs in Capital Mobilization for Economic Development.

The study set out to establish the role of MFIs in capital mobilization for economic development in Ho Municipality. This objective was guided by the research question: the impact or role of MFIs in capital mobilization. The finding reveals that MFIs have contributed to capital mobilization within the Ho Municipality. MFIs have been a platform for economic emancipation and a way of reducing poverty. It is also a quick way raising capital for most SMEs for the expansion of their businesses leading to economic development in terms of job creation; a platform to access credit easily and a good source of capital accumulations through savings services provided by the MFIs that make saving more accessible, less costly and ready to receive small

amounts from its clients the habit of savings is enhanced as low-income earners who were hitherto unable to save with traditional banks are offered an opportunity to save. The practice helps to improve capitalization as most of these savings are plowed back into their businesses. The finding also reveals that there have been improvements in the economic well-being of beneficiaries as a result of MFIs. This was evidenced by the fact that beneficiaries from the activities of MFIs were able to earn, own and increased their incomes, establish income generating activities, mobilize savings, meet the school fees for their children and purchase household properties such as land, house, and furniture, clothing, and food among others. The study also reveals that there has been an improvement in the social status of beneficiaries as a result of microfinance. This was evidenced by the fact that, beneficiaries have been able to meet social obligations through financial contributions, increase their integrity and confidence level in the society. That is, improving the standard of living of beneficiaries. The research findings also show that MFIs have contributed immensely to capital mobilization and economic development through several activities as enumerated below:

1. Greater access to credit. The MFIs have provided petty traders, artisans, and SMEs greater access to credit than the traditional banks most of the respondents indicated that 98 percent of their credit demand or requests were granted. Since most of these petty traders and artisans, as well as SMEs, are micro, their credit needs are very small, and their credit needs are most of the times met. Most of these petty traders, artisans, and SMEs were found to be dealing with more than one MFI, and the credits granted helped to boost their capital and expand their businesses. It is a one-stop shop for these categories of borrowers to easily and quickly raise more funds to boost their businesses leading to the economic emancipation of these borrowers.
Through this access to greater credit, most SMEs are able to offer more job opportunities to the unemployed in the society. These unemployed people now have jobs and can earn a living leading to a reduction in poverty and unemployment rate in the country.
2. An enhanced savings habits. The traditional banking sector is unable to introduce savings products that will attract micro businesses. MFIs have been able to create the platform that enables micro businesses to save the little income they earn on a daily basis with little cost and at the comfort of their working place.
3. Savings instruments provided to the public. The MFIs provided a various form of savings instruments to the general public. These instruments are enumerated below:
 - Savings deposit
 - Deposits that can be withdrawn at any time
 - Demand deposits, and
 - Susu

The challenges faced by MFIs and beneficiaries in capital mobilization for economic development

The study also set out to find out the challenges faced by the MFIs and beneficiaries in capital mobilization for economic development. This objective was guided by the research question: what problems do MFIs and beneficiaries face in capital mobilization. It was established that MFIs face several challenges in granting credit for capital mobilization and some of these challenges or problems are enumerated below:

- The problem of repayment of loans
- Lack of collateral required to support the credit request by clients of MFIs
- Poor or no record keeping on the part petty traders, artisans, and SMEs, and
- Lack of guarantors

Despite the contribution of MFIs in the activities of petty traders, artisans, and SMEs, there are some challenges faced by these beneficiaries in accessing credit. Some of the respondents find the process of accessing credit cumbersome. Some of these challenges are as follows:

- Inability to provide securities in cases where they are demanded
- High interest rates were also mentioned as one of the challenges faced in accessing credit. The high-interest rates in most cases make clients unable to repay their loans.
- Loans not disbursed on time
- Some of the MFIs absconding with clients' deposits, and
- High processing fees

The research established that, despite the challenges and misgivings of some people within the Ho Municipality about MF, it is regarded as a very practical and strategic intervention in providing much needed funds or capital for the poor who may not have easy access to the mainstream financial services. It is worth noting that MFIs provide better access to credit than the traditional banks. In relation to high-interest rates, the MFIs have explained that the risk attached to granting of the loans is on the high side and are unable to reduce the interest rate. In the midst of these challenges, we wish to emphasize that the finding of this research clearly indicated that MFIs had had a positive effect on capital mobilization for economic development.

Recommendations

These recommendations from the research findings are geared towards making policies at the institutional level to enable the provision of better services to the clientele. This is because the MFIs have been in existence within the Ho Municipality well over twenty years and people have benefited from their services, and therefore it is important to address the needs of the clients so as to harmonize operations for more impact in the Ho Municipality in particular and Ghana in general.

Recommendation for MFIs

Microfinance has played very useful roles in impacting the quality of life of the marginalized and excluded in society. These people have had very little or no access to funding from the traditional banks. The only suggestion for reducing poverty levels and mobilizing capital among them is through membership of MFIs. If MFIs is to be more viable and beneficial to members, their interest rates and processing fees on loans should be reduced in order to make the non-bank financial institutions capable of attracting and retaining members. More also, loans applied for should be disbursed on time. It was found out that; client of the MFIs had to wait months to qualify for loans. This condition is not favorable to the most vulnerable members who need the loans so urgently. It is therefore recommended that MFIs should be more flexible in handling such cases. From the findings of the study, MFIs were unable to meet the financial needs of their members readily. As a result of which most members have to wait for three to six months before getting assistance. We recommend that MFIs should use their funds as collateral to secure loans from their members. MFIs should increase the amount given as loans. MFIs are also recommended to establish loans products such as school fees loans and assets loans. MFIs should continuously supervise, monitor and follow up their clients adequately and closely to avoid diversion of funds and improves upon its customer care unit. In order to reduce the default rate, MFIs can research into very profitable business lines and offer credit to clients who have the capacity to exploit such business lines. The researchers also recommend that business and financial training should be provided by MFIs on a regular basis and most cases should be tailored towards the training needs of their clients.

Recommendations to Government

The government is urged to get involved in determining the interest rates, centralize the interest rates such that the rate is uniform for the MFIs and also supervise and monitor the services provided by these MFIs through regulations from Bank of Ghana on the operations of MFIs. Respondents also recommend that the government could protect the borrowers from the MFIs and also provide community sensitization and training guidelines for the access and utilization of MFIs services.

Recommendations for MFIs Beneficiaries

We recommended that MFI beneficiaries in other MFIs should be trained thoroughly before undertaking credit facilities for an enterprise, use the money for intended purposes only and avoid misuse and diversion of funds. The clients are also urged not to move from one MFI to another but rather study the operations of the MFI before accessing its services and also support each other with skills, supervision, and monitoring as a group. Beneficiaries are urged to have a business venture before borrowing funds and not to use credit to start an investment but rather to expand or diversify investments.

Further Research Directions

Due to time constraints in carrying out this study, we recommended for a further research to be carried on the impact of Micro Finance Institutions (MFIs) on small scale enterprises within the Ho Municipality, factors that lead to people joining more than one MFI and the possibilities of providing asset loans rather than cash loans for some beneficiaries.

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