British Journal of Education, Society & Behavioural Science
5(4): 433-449, 2015, Article no.BJESBS.2015.037
ISSN: 2278-0998

SCIENCEDOMAIN *international*
www.sciencedomain.org

Microfinance in Ghana: An Exploratory Case Study

Bernd Reiter[1*] and James Peprah[2]

[1]Department of Government and International Affairs, University of South Florida, United States of America.
[2]Department of Economics, University of Cape Coast, Ghana.

Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

Article Information

DOI: 10.9734/BJESBS/2015/12281
Editor(s):
(1) Yoav Gal, Department of Economics and Management, Tel–Hai College, Israel
Reviewers:
(1) Anonymous, Spain.
(2) Anonymous, Pakistan.
(3) Anonymous, Ethiopia.
Complete Peer review History: http://www.sciencedomain.org/review-history.php?iid=817&id=21&aid=7107

Case Study

Received 25th June 2014
Accepted 18th October 2014
Published 8th December 2014

ABSTRACT

This article presents the findings from a 5-week exploratory research project on micro-finance in Ghana. The aim of this project was to develop initial hypotheses that can be tested in a follow-up systematic research project. Our preliminary findings are that informality is a major roadblock to successful lending; that lenders redirect loans to other, non-explicit needs and wants thus indicating a different set of priorities than the lenders; and that the most successful component of microfinance is not lending, but saving. We also found that gender and religion constitute important factors interfering with and potentially distorting successful microfinance practices.

Keywords: Ghana; microfinance; development; informal sector; gender.

1. INTRODUCTION

Microfinance (MF) has been heralded by many as the magic bullet, able to empower marginalized populations by investing into their agency. Since its creation by Mohammad Yunus in the 1970s, Microfinance has conquered the globe, spawning thousands of organizations eager to lend money to those that do not qualify for regular bank loans. However, as some more recent critical assessments demonstrate [1-4] not all microfinance organizations are equally

**Corresponding author: E-mail: breiter@usf.edu;*

successful. The popularity of the idea has by now not only brought the philanthropic world to this form of aid; it has also awakened commercial banks to a segment of the society hitherto unexploited. Worse, microfinance has also attracted individuals who have tapped into Yunus' philanthropic idea in order to enrich themselves by squeezing those that are already at the bottom of social hierarchies and the nadir of agency. Some of these new players in the micro-finance field are charging such exorbitant interest rates and use such harsh measures to ensure loan payment that some lenders were pushed into suicide (as has happened in October 2010, in Andhra Pradesh, India, where 53 suicides were reported in relation to microfinance institutions). Harassments in order to receive loan payments were indeed so common in the Indian state of Andhra Pradesh that in January of 20122 the state government passed a law regulating this sector.

Rooyen, Steward, and de Wet [5] argue that there is little evidence that micro-credit has any impact on employment. In their systematic review of sub-Saharan micro-finance institutions, they only find two examples where micro-finance actually led to job creation. Lakwo [6] on the other hand, reports that rural microcredit program in Uganda resulted in greater empowerment among participating women. An earlier study by MkNelly and Dunford [7] found that in Ghana microfinance was able to raise the average income of clients and another study, also focused on Ghana, found both negative and positive impacts of MF on education as a result of district level differences. According to Nanor [8], on average, households receiving MF loans were able to keep their children in school longer than those without those loans. While the article by Rooyen et al. [5] provides the most recent and reliable account of microfinance impact in sub-Saharan Africa yet, it seeks to assess the impact of MF on health, nutrition, education, child labor, women empowerment, housing, job creation, and social cohesion and, by doing so, it does not allow us to better understand why some MFIs are successful and other are not. Given this mixed account, the question emerges, what accounts for the success and failure of microfinance? And: Under what conditions is microfinance successful? This research report seeks to provide tentative answers to these questions.

To answer this question, it is crucial to remember the core function of microfinance, namely to propel the agency of those who have been excluded from formal market economies. This is to say that a small loan, made typically to women, should aim at allowing the loan taker to become an active member of the local economy by starting his or her own small business and through, to work her way out of poverty. Microfinance is explicitly not aimed at making loans to cover private expenses and/or make payments on other loans. How much of this initial idea is left in contemporary microfinance practice? Are loans used to start businesses? Do they positively impact the agency of historically excluded members of society? In general: what distinguishes a good from a bad microfinance institution?

To systematically and reliably address these questions, an in-depths comparative analysis of different Microfinance organizational types is required – something we hope to achieve in the near future. In the meantime, this article presents the preliminary findings from an exploratory pilot study, conducted in Ghana, in June-July of 2012. Ghana is an ideal case for such a study, because of the presence of a multitude of different microfinance institutions in this country. The variety among different microfinance institutions allows for a critical comparison of different MF types that can be categorized along the following variables: (a) Funding sources: managing international funds versus national or local funds; (b) Ownership: international versus domestically owned and controlled; (c) Juridical character: for profit versus non-profit organization; (d) Independence: independent versus belonging to a bigger organization, among others.

To address these questions, we conducted a five-week pilot empirical research project in the Central Region of Ghana. Under the coordination of the authors, a research team, consisting of three faculty members and six graduate students of the Cape Coast University's department of economics and two graduate students of the University of South Florida was assembled and trained in an initial 2-day seminar, held from June 6 to 8, 2012, at the University of Cape Coast. The purpose of the seminar was to host a brainstorming about the potentially relevant questions to ask and, once achieved, to agree on a shared research design and methodology. On the second day of the seminar, representatives of 12 microfinance institutions of Ghana's Central Region were invited to participate and share their experiences and learning with the research team. From the outset, the project coordinators conceived this project as participatory, which translated into including the microfinance institutions into the very process of formulating the research question, design, and process. Conceived as an exploratory pilot study, the project coordinators aimed from the beginning at developing plausible hypotheses that can be tested in a more systematic follow up. In this first step, we also aimed at creating a network of organizations, among researchers, the university, and the microfinance institutions themselves, so that the knowledge produced could be shared and used by the MFIs. It is the goal of the research team to follow up with a full-fledged research project on Microfinance in Ghana, aiming at detecting best and worst practices and to determine the conditioning factors that cause one organization to succeed in achieving its goals and another to fail or to create undue pressure and new problems for their already poor lenders. This article presents our preliminary findings and the hypotheses we were able to induce from this exploratory research project.

2. MICROFINANCE IN GHANA

The rural financial market in Ghana is dominated by three main types of institutions (1) Formal institutions, such as the traditional commercial banks, rural and community banks (RCBs) and savings and loans companies;(2) Semi-formal institutions, such as non-governmental organizations (NGOs) and credit unions (CUs) and(3) Informal institutions, such as 'Susu' companies,[1] religious groups, rotating savings and loans schemes (ROSCAS).

In Ghana, Rural and Community Banks constitute the largest players in the rural formal banking sector. RCBs are unit banks owned by community members and stand out as the largest financial player in terms of geographical coverage, depth of outreach, and number of products in rural areas [9] they play a much greater role than NGOs, which is unusual when compared with many other African countries [9]. With 115 RCBs operating at the end of 2001, the total number of recorded depositors was 1.2 million and the number of borrowers was 150,000. Nevertheless, RCBs are generally rather small, especially in terms of the number of outstanding loans. Total loans advanced to clients in 2006 by all RCBs equaled 115.10 million Ghana Cedi (approximately US$127 million), an increase of 35.4 percent from 2005 [10].

Originally, RCBs made standard commercial loans to individuals or groups, often related to agriculture; later they adjusted the terms of loans to make them more microfinance-like, by including short-term duration periods, requiring weekly repayments, and retaining a compulsory up-front savings of 20 percent of the loan amount as a security [11,9].

Savings and Loans Companies (S&Ls) are financial institutions licensed by the Bank of Ghana to mobilize savings as well as extending credit to clients [12]. Steel and Andah [11] indicate that S&Ls have proved to be a flexible means of regularizing three types of MFIs intermediaries through (1) transformation of NGOs into licensed financial intermediaries; (2) formalization of informal money-lending operations and (3) establishment of small banking operations serving a market niche. S&Ls make use of microfinance strategies which are highly innovative in reaching relatively poor clients with very small, short-term transactions but which remain both costly and risky. The interest rates of these institutions are therefore higher than the traditional banks. However clients place greater value on ready access to funds than interest charges. The modes of frequent small payments (weekly, fortnightly and monthly) make it easier for clients to bear. A saving orientation that develops provides a useful strategy for screening and selection. Savings and Loans Companies also demand that potential clients save with them before applying for loans. This aids in the selection of clients with discipline to pay off loans and to eliminate those who are unlikely to be able to bear the debt burden. The companies employ both individual and group lending strategies.

[1] *Susu lenders are traditional money savers in Ghana. Typically, they collect a fixed amount of money per person, every day, week, or month, thus serving as a savings-account holder for all those who do not have access to formal banks and saving accounts. Susu lenders typically dispense the saved money upon request, but keep a small amount of the saved money for themselves, typically one single contribution per month. Contrary to banks, "Susumen" travel and come to their clients upon request, instead of the clients having to come to the bank. While Susu is a traditional and well established practice that strengthens community ties and builds trust by offering attractive ways to save money to many poor and excluded individuals, it also has its risks, as some Susu collectors have been known to run way with the collected money. Of special interest with regards to Susu is also its relevance for some religious groups, especially to practicing Muslims who are not allowed to earn interest on their savings. The seminar participants thus decided to pay special attention to Susu and its interaction with formal lending. The researchers were acutely aware that microfinance might be replacing a traditional and widely accepted local practice.*

NGOs and cooperatives, such as credit unions, are considered to be semiformal, as they are formally registered but are not licensed by the Bank of Ghana until 2011. NGOs have facilitated the development of microfinance practices in Ghana by introducing internationally tested methodologies, which are often based on group solidarity [11]. The NGOs' poverty focus leads them to achieve comparatively deep penetration among poor clients in rural areas, but microfinance is in most cases only one of their activities. Total outreach remains limited to about 60,000 clients [9]. Two categories of NGOs can be identified in the microfinance sector. Deposit taking NGOs and non-deposit taking NGOs. Non-deposit taking NGOs are not licensed by the Bank of Ghana and hence not allowed to take deposits, they have to rely on donor funds for providing microcredit to the targeted poor households. Deposit taking NGOs can mobilize deposits from the public and are therefore supposed to obtain license from the Bank of Ghana.

Credit unions were originally characterized by weak financial performance, mostly due to their welfare focus and their policy of low interest rates. Yet performance improved through enhanced management and financial reporting, and as a consequence, the proportion of 'unsatisfactory' credit unions decreased from 70 percent in 1996 to 60 percent in 2001 and the proportion of those in the worst categories from 42 percent to 15 percent [9].

The informal financial sector has been very important in Ghana, especially in rural areas. It covers a range of activities known as Susu, which are performed by individual savings collectors, rotating savings and credit associations, and savings and credit 'clubs' run by an operator. Susu collection involves individuals saving outside the banking system to enable them to invest in projects; promote their welfare by way of business expansion; and finance child education, funeral organization and other ventures where lump sums are needed. In 2003, there were over 4,000 collectors nationwide, collecting the equivalent of an average of US$15 a month per client from approximately 200,000 clients [11]. In 2005, the Ghana Co-operative Susu Collectors (GCSCA) signed on to a micro insurance scheme to insure their collectors in case of accident, robbery, or death. Some RCBs and commercial banks (for example, Barclays Bank Ghana Limited) developed linkages with Susu collectors in order to expand their own services, as they have, in some cases, adopted the savings mobilization methods developed in the informal sector [11].

Unfortunately, due to high rate of default among clients, the program has been cancelled for the reason that the Susu collectors were unable to service the wholesale funds retailed to the end users. Furthermore, RCBs have also become bankers to some informal financial actors. Growing linkages between RCBs, NGOs and Susu collectors are an important pre-condition and foundation for greater outreach to rural poor clients, with RCBs providing a decentralized network of licensed financial institutions in rural areas and the others providing the grass root orientation that permits reaching relatively poor, remote clients with small transactions [11]. To facilitate the work of RCBs in Ghana and to deliver efficient services in more economic manner, computerization of all RCBs is ongoing.

Currently about a third of RCBs are fully computerized to enable them to deliver Internet banking services to reach a wider number of rural poor. The main challenge in the computerization program is unstable power supply. Even though stand-by high-powered generators have been provided, this seems not adequate. There is therefore much to be done to speed up and complete the computerization process in order for the rural and community banks to provide more efficient and cost effective services to the rural poor.

The microfinance sub-sector in Ghana is undergoing several changes in recent times. The level of operations continue to increase as more businesses are adding microfinance products to their business lines even though they might not have registered as microfinance institutions legally. Associated with these developments is mushrooming of several unidentified small and medium scale enterprises that call themselves 'MFIs'. In recent times, a lot of concerns have been raised about the unscrupulous activities of such institutions, which serve as a threat to resources of hard working and innocent depositors.

In Ghana, the Bank of Ghana (BoG) has the mandate to protect the interest of all depositors and ensure sanity in the overall banking system according to the BoG Act, 2002 Act 612 [10]. In pursuance of this mandate, the BoG took bold steps to regulate all MFIs in Ghana effective August, 2011. As part of the regulatory process, all MFIs have been categorized into three categories namely: Tier 2, tier 3 and tier 4 according to minimum capital requirements and licensing types to be issued. Tier 1 activities comprise those undertaken by Rural and Community Banks, Finance Houses and Savings and Loans Companies. These institutions are regulated under the Banking Act, 2004 (Act 673) and they are excluded from the current Bank of Ghana (BoG) regulatory guidelines.

According to the guidelines, tier 2 institutions include *Susu* companies, profit-oriented financial NGOs and other companies engaged in financial services that are taking deposits and granting loans. Tier 3 institutions include moneylenders and non-deposit taking financial NGOs. These institutions operate like finance houses using their own resources, borrowed funds or donor funds. For these institutions, deposits taken must be kept in an escrow account with a bank or a Savings and Loans company.

The Bank of Ghana has given recognition to institutions that deliver microfinance services. For example companies with the word 'microfinance' added to their names have been authorized form apex body called Ghana Association of Microfinance Companies (GAMC). Moneylenders have also been given the mandate to form Moneylender Association of Ghana (MLAG). Credit Unions are already under the umbrella of the Ghana Co-operative Credit Unions Association (CUA) even though they are not under the supervision of Bank of Ghana. The role of these umbrella associations is to ensure that their members comply with the Bank of Ghana regulatory and operational guidelines. Thus, microfinance in Ghana is now subject to some sort of supervision from the Bank of Ghana. [10]

3. THE RESEARCH

On June 6 and 7, 2012, the group of researchers, graduate students, and Microfinance Institution representatives met at the department of economics, University of Cape Coast, Ghana. In their discussions, they defined this research project along the following lines: The main objective of this pilot research project is to determine the effectiveness of microfinance institutions for poverty alleviation and enhancing agency. The research statement was formulated as such: Microfinance, according to its founder Muhammed Yunus, [13] does not aim only at providing loans to poor people that have no access to traditional loans. It aims at improving lives by enabling those traditionally excluded from formal banking to launch businesses and small enterprises so that they can become independent, launch their own small businesses, and improve their livelihoods. This implies that loans should lead to businesses via increased savings and investments. To assess its effectiveness, one must follow the loan and determine to what end it was used and if it achieved its goal of creating sustainable businesses by jump-starting them. In terms of research design this means that one must examine those individuals and families that have received a loan 2, maybe 5 years after having received it. One must ask them: (1) What they have done with the money from the loan; (2) If that loan was instrumental in establishing a business; and (3) If the business will be able to survive without further loans (sustainability).

Dwelling on their many years of practice and field experience, the group also identified the following potential problems, pitfalls, and limitations of Microfinance: (1) Loans used to cover unproductive expenses (even such indirectly productive investments as into housing, health, and education) have no direct impact on improving economic agency. These expenses should not be covered with loans, but with income generated from a job or business created with a loan; (2) Worst case loans: loans to pay off other loans; (3) Risk: indebting the poor; (4) Risk: no improvement, but stagnation or worsening of the livelihoods of the poor by adding loan payment pressure and stress.

The following conditioning factors were identified among the participating individuals: Micro loans aim at increasing agency and creating entrepreneurs, but not everybody can be a successful entrepreneur; even in the USA, the rate of failure for new businesses exceeds 70 percent (but: the easier it is to start a business, the higher the rate of failure: low entrance requirements lead to increased numbers of unpromising attempts). So, for entrepreneurs to thrive, they need to be able to count on a conducive environment, consistent of a functioning infrastructure and legal framework (steady electricity; internet; roads, ports, means of transportation; legal framework to guarantee property rights and ensure access to restitution and retribution measures in case the law is violated (access to affordable legal counsel; access to courts, access to timely trials; unbiased legal system). These structural factors escape the control of the loan-takers and fall into the responsibility of governments and large-scale business, able to develop their own infrastructure, which then can also be used by others ("positive externalities"). Even if incipient markets promise high returns, starting a business in a marketplace that does not already have established businesses is very difficult and costly, as it requires high initial investment. It is very questionable if small entrepreneurs can succeed in such an environment. It can be expected that they fare better in the immediate environment of larger businesses, being able to take advantage of the infrastructure created by industries of scale and catering to the supply needs of those, as well as to the demand generated by the employees of successful larger businesses (Hyp.1 = clustering of small businesses around bigger businesses).

In their final assessment, the seminar participants agreed that microfinance cannot be the sole solution to problems of poverty and exclusion. It must aim primarily at those that seek to become micro entrepreneurs. Becoming a micro entrepreneur is not a viable solution for everyone. In the African context, microfinance promises to connect well with already existent small market entrepreneurs.

The following specific issues were raised at the seminar: In general, the approach of microfinance according to Sen and Yunus [14,13] is rather narrow and its focus on entrepreneurship imposes severe limitations on its applicability and reach as an effective tool for poverty alleviation. Many practitioners and observers in Ghana have already observed many cases of mission drift and what might be called a "local appropriation" or adaptation of the original microfinance idea: lending to cover educational expenses, lending for another person (who has no access), as well as forward-lending, that is: taking a loan to lend money to others have all been observed. In terms of research design, this experience leads to a need to assess clients (loan takers) to determine the effectiveness of a loan; to assess successful business insertion after sometime (2-5 years); to assess the impact of loans on agency and capabilities; and to assess the indirect impact of loans on education, housing, and health. Only a full-fledged, long-term, and if possible longitudinal study can fully capture the impact of microfinance on the lives of the poor lenders. To successfully capture all the possibilities in this process, such a study would have to contemplate the following group of variables: At the lending level: type of lending organization; type of loan (amount, interest rate, payback conditions); type of "lending regime:" under what conditions are loans given? To be useful as an instrument of poverty alleviation, primary criteria should not be financial creditworthiness, but if the loan will be used to expand or start a business. At the lender level: What is the loan used for? How effective was the loan in increasing agency and capabilities of the lender? And finally, at the contextual level: Starting a business is dependent on such external factors as the availability of infrastructure, the presence of industries of scale, functioning legal framework that ensure property rights and access to legal protection and redress; high entrance requirements for some groups (poor, women, illiterate); gender dynamics; and the regulatory environment.

The seminar participants then asked how to assess agency and capabilities at the client level? The following indicators were identified: Changes in health of the family, measured in terms of access to doctors, number of doctor visits, access to medicine and treatment: Access to national health insurance (mutual and national); change in body and health indicators; changes in educational levels over several generations; increased business activity; increased income; increased social and political participation of previously excluded groups.

From these initial reflections, the following specific research questions were formulated: How effective are different types of MFI in increasing the agency and capabilities of the poor in Ghana? How effective are different types of MFIs in fostering entrepreneurship? Has the number of entrepreneurs risen around MFIs? How well do MFIs meet the needs of the poor? What are the gender dynamics involved in MFI lending? How does religion and religious affiliation affect micro-finance?

The theme of mission drift and local appropriation was given special salience, as microfinance was designed as a limited instrument to foster business entrepreneurship for those already having a small business and seeking to expand it and for those seeking to start a small business. Following economic theory, this is seen as a way to achieve household savings that can be used for investment, which, for such authors as Amartya Sen and Mohammed Yunus, [14,13] are ways to increase a person's agency and raise their capabilities. However, several potential problems arise: Loans might not be used for savings and investment, but for consumption; even if used for investment, the type of investment preferred by the loan taker might not be to start a business, but to directly invest in education, housing, health, or other venues (trade, forward lending, other loan payments, etc.). Whenever this happens, it indicates different priorities among lenders and loan takers. If loan takers consistently show divergent priorities, then a mismatch between policy and social reality can be asserted and a mismatch between expressed needs and available policy solutions can be diagnosed.

The prevalence of Susu lenders working parallel or with formal lenders indicates that the entrance barriers of poor / illiterate people remain high, even in community banks. It also became clear that gender and religion are important factors that need to be contemplated to determine the success or failure of microfinance in Ghana. The MFI practitioners explained, for example, that the loan payments of women was much easier and more successful compared to men, as women were less mobile and faced shame if they did not pay back their loans. Men, it was explained, sometimes just left with the money – never to be seen again. Similarly, religion played a role in microfinance, as Muslims are typically not allowed to earn interest on their savings, which might led them not to interact with banks.

4. IN-DEPTHS FIELD RESEARCH

During the month of June 2012, the research team conducted several field trips to conduct in-depth empirical research with four of the 12 MF institutions that had participated in the initial seminar. The researchers conduced semi-structured, open-ended interviews with key stakeholders, i.e. employees of the MFI, different clients, Susu lenders, and MFI owners or managers. The four institutions were selected previously as they represent the variety of MF lending institutions present in the Central Region of Ghana, that is: banks focusing on women, charity-based MFIs, community banks, and rural banks.

4.1 Site 1:[2]

This institution was initially started with and funded by women but now has both sexes constituting the clientele base. The original idea was to empower women (especially the poor and vulnerable) economically. Loans were initially advanced to women only, but today, both sexes are able to access the products and services. Their mission is "To inculcate the habit of savings in the poor." It was started by a group of women who were foreigners but have left the country since and entrusted the running of the institution to shareholders. This organization offers two types of products and services, namely:

(A) Savings that are generated from the Susu contribution of clients. Susu contributions are not paid directly to clients. Instead, contributions are converted into savings and a regular savings account is opened, thus facilitating a transition from informal to formal banking practices. There are three types of loans (mostly with varied monthly repayment periods, see Table 1) associated with having a formal savings account, namely: long term loans, given for period of between 12–24 months, at an interest rate of 19.5 percent per annum; loans within savings (these loans are given out of client savings. They are $2^{1}/_{2}$ times to 3 times the amount of the client's savings and the repayment period is for a maximum of 10 months, with an interest rate of 1.5 percent per month); and finally special short term loans, i.e. loans given to a certain category of individuals especially businessmen. For this type of loan, having a savings account is a must, but the amount of the loan does not depend on the level of savings. These loans must be guaranteed by other clients i.e. one or more members whose savings are enough to repay the loan in case of default. The maximum repayment period is 6 months with a 16.5 percent fixed interest rate. This type of loan also includes loans for funerals, school fees, and similar others. (B) Fixed deposits, where this organization claims to have the lowest interest rates.

This MFI serves about 3000 clients, mainly women traders. The low clientele base is due to the fact that it is community-based. Members are not salary workers. The main idea originally was to empower women within the community. Short-term loans are processed within 2 to 3 days and loans are given only to members. Becoming a member means owning a minimum of GHS 50.00 (24 US$) of shares. All loans are insured. Before loans are granted, the loans committee does an appraisal, checks client's balances, conducts interviews to ascertain the eligibility, conducts business site and home visitation, compiles a report on the client for consideration by management and, if satisfied, the client is

[2] *Fieldwork conducted on 11th of June 2012. The names of the MFIs were omitted.*

called and given a loan. According to the manager, the default rate was high in the past but has now been reduced considerably (however he could not put a figure to it). Strategies for minimizing default include making phone calls, promptings, sending letters to the beneficiary and copying guarantors, but also threatening court action. According to the same informant, men default much more. Women, he said, are afraid to default on repayment. The organization's main challenge is a lack of logistics (no vehicle for institution to facilitate monitoring and evaluation); the predominant illiteracy of clients, which translates into a general difficulty in dealing with them. All the clients interviewed were of the view that their coming into contact with the MFI has been a success story because they now have an avenue to save and access loans to help sustain and grow their businesses. In terms of health, education, income, and business, two storylines unfolded. On one side, their increased ability to save provides them with an opportunity to have access to funds that can be used as investments into their health, education, and to cover unplanned events. In addition, their being part of the cooperative has afforded them the opportunity to come into contact with many people thereby enriching their social capital. None of them said he/she has been able to improve his/her political affiliation/participation or come into contact with any political figure. On the other hand, the interviewed clients said that increased access to small loans has turned things around because they are now able to engage in different cash purchases. According to their testimony, this has helped enrich their self-esteem. They are also able to better pay medical bills as well as pay for their children's school fees.

The MFI gives financial advice to businessmen and women on how to grow their business. They also had an education committee that educates clients on business growth. This MFI had more Christian clients than Muslims, which is not surprising, given their location in the southern part of Ghana, where Christians dominate. When asked whether religion plays a role in the number of people that save with them, the loans officer said that has not been an issue at all since their client-base consisted predominantly of market women who come to save with them regardless of their religious background.

Interviewing the MFI's staffs, it became clear that most of them had been working with the organization for about 1 to 5 years as either accountants or tellers. Most staff members complained that the MFI does not offer good incentives to its employees. When interviewing some clients, it became clear that they had been clients for about 5 to 8 years and were traders of farm products. They have been saving with the MFI because of its high interest rate on savings, which was 6 percent in 2012.

Most interviewed women said they enjoyed services with this MFI because of the financial advice given on loan usage by loan officers, helping them to make profits and enabling the repayment of the loan early in order to avoid any social disgrace. It was also verified that most women fear debt and hence do not default.

On the question if MFIs had improved their life, most women said they now have the capital for their business and can now take care of their home since most of them are the primary breadwinners of their family. However, some women suggested that the MFI should increase their staff so as to introduce door-to-door services. Some interviewed women also suggested that the MFI should advertise better in order to attract more clients, which would allow them to charge lower interest rates on loans by broadening their client base.

4.2 Site 2:[3]

Started by a foreign Christian Minister, this MFI represents charity-based banks. Its expressed vision states "to create a nation under the almighty God where the strong help the weak and the people have a dignity of providing for themselves their families, their church and community." Its primary clients are church members. It only deals with the economically active poor. It does not give loans for business startups. Its expressed main aim is to transform clients socio-politically, spiritually, economically, and physically. Their mission is to serve as a "mustard seed" through which opportunities for enterprises development and income generation are provided to the economically disadvantaged to transform lives. Accordingly, their vision statement is to form "a nation under the Almighty God where the strong help the weak and all people have the dignity of providing for themselves, their families, their church and

[3] *Field conducted on 12th June 2012.*

Table 1. The below list represents a typical list of MFI products of larger MFIs

No	Product name	Min Amt (ghc)	Max amt	Intrate (%)	Loan duration	Applfees (ghc)	CWS (%)	Grace period	Repaymt method	Proc. Fees (% of loan amt)	methodology	Comp. saving (%)	Security collateral
1	Trust Bank	200	900	39	8mths	3	2	2 wks	Weekly/bi-wkly/ mthly	3.5	Group	10	Group Guarantee
2	Solidarity	1,000	3000	39	8mths	3	2	2 wks	Bi wkly/ mthly	3.5	Group	10	Group Guarantee
3	Indmicro loan	500	6,999	40	12mths	5	2	2 wks	mthly	3.5	Indivi.	10	Guarantor/ an asset
4	SME	7000	50,000	43	18mths	10	2	2 wks	mthly	3.5	Indivi	10	Guarantor and the asset itself
5	Asset loan	400	5,000	38	18mths	5	2	4 wks	mthly	3.5	Indivi	15	Guarantor
6	Educ. loan	250	1,000	37	6mths	5	2 for non existig clients	2 wks	mthly	3.5	Indivi	None for old clients. 10 for new clients	Guarantor
7	Micro schools			28-30	2years	5	None	4 mths infrastructure loan and 1 mth for wking capital loan	mthly	3	Indivi	10	Guarantor and the asset itself
8	Festive loan			37	3mths	5	None	2 wks	mthly	3	Indivi	10	Guarantor
9	Special agric loan				Depends on product maturity period	5	cws 2%		Bullet payment	It depends on the project package	Group	It depends on the product package	Group Guarantee
10	Remittance/Savings								Daily		Indivi	Voluntary savings	-
11	Micro housing loan								mthly		Indivi		Guarantor

Source: Compiled from field survey, 2012 community." The MFI has defined a set of core values. These are:

(1). Respect: Our respect for one another compels us to value fully and affirm the dignity and uniqueness of each client. This respect is also the foundation for our relationship with our clients' communities and our relationships with others involved in our donors, creditors, colleagues and fellow members of the network.
(2). Commitment to the poor: We focus our energy and efforts on our clients, their families and their communities. Their business need and expectations determine the services we provide and their wellbeing inspires what we do.
(3). Integrity: We commit to integrating actively what we believe with what we do. We will do the right things for the right reasons, whether or not anyone will know.
(4). Stewardship: We are committed to being good stewards of our own resources and those of our clients, donors, creditors and colleagues by exercising thoughtful and cost effective use of time, skills and finances we have. We strive for quality and seek to maximize the opportunities we have to fulfill our mission.

The interest rates are so high, because the MFI takes loans from big commercial banks for onward lending. It typically borrows at 27 percent per annum and lends to individuals active in the export and import business. Loans are normally insured at 2 percent per annum. This MFI does group lending (Table 1) through self-selection, using a group's assets as collateral. It has a client base of 27,000 for the whole organization. In Cape Coast, it has 3,232 clients, of which 14.2 percent are men and 85.8 percent women. The MFI reports an average default rate of 5 percent. According to the manager, this rate is currently higher (6.7 percent), due to "client recalcitrance." The way to minimizing this has been to offer business advice through orientation and training.

According to the mission and vision of this organization, the focus is on a holistic transformation of their clients. It seeks to help clients to build their own places of residence with proceeds from business. According to a staff member, the main problems they face are high default rates, high inflation, high exchange rates, as some bank loans are in US dollars. The MFI is currently seeking accreditation from the Bank of Ghana to transform itself into a full-fledged bank.

The MFI gives advice to clients on how to properly utilize loans before giving out loans. Once given, its representatives visit their clients' businesses to make sure they are using the loans for their intended purposes and to also educate clients on business growth/expansion. One of the women interviewed stated categorically that her business has really grown after being a client and a subsequent beneficiary of the loans provided by the MFI and she has been able to open another branch of her provision shop.

Most of the women interviewed at this MFI had subscribed to the transfer services offered by this MFI, which they mostly found ineffective due to frequent network problems in transferring money. One interviewed client, a woman, said that she does not trust the MFI and suspects that they use her transfers to further their own business. She added that the money she receives every monthly is always late, thus raising the suspicion that the bank uses it for their business, blaming network problems. She suggested that the MFI should improve their network to make it consistent.

A woman whose is a baker made it clear during the interview that she had taken a loan of 1000 Ghana cedis from this MFI and was supposed to pay 72 Ghana cedis a week for the next four months. She complained that the idea of the weekly payment was not the best and suggested it would be better to pay monthly. She added that since she took the loan, her business has expanded and she has gained respect in the society, which makes others come to her to borrow money. She also said the family is now better off, as she is the primary bread winner and can now pay for her children's tuition and also for national health insurance scheme.

4.3 Site 3:[4]

Site 3 represents a typical rural bank. Upon speaking to the Loan manager, we noted that the number of women outweigh the number of men as lenders. The manager however told us that on average, men take out bigger amounts. A Ghanaian banker founded the bank and started it as a commercial bank from the onset. Operations are purely banking services but at the rural level. The bank introduced microfinance into its operations, inspired by *Micro Start* initiative of the Bank of Ghana [10]. So today the two major

[4] *Fieldwork conducted on 13th of June 2012.*

operations of the bank are banking proper and microfinance. According to the manager, the bank is very much committed to long-term success, which depends to a large extent on customer satisfaction as well as on a culture of excellence among the board members and management to motivate the employees. To this end, the bank is poised to build a strong, viable and profitable banking institution by pursuing prudent innovative policies and strategies and also offer quality services to the banking at all times.

Their microfinance products are designed based on the needs of the community and the interest rate charged on loans is 20 percent on a reducing balance basis. Their funding sources are share sales, savings from clients, collaboration with donor agencies, APEX Bank and other agencies such as ADF, Social Investment Fund (SIF), and SPEED. They provide startup capital for groups, but require that microfinance loans be backed by group assets. They currently work with 15 groups. Each group has 25-35 members. They also offer non-banking services and seek to instill corporate social responsibility by donating computers, organizing health programs and financing festivals. The main challenges identified by the staff were government directives requiring banks to hold on to loans thus disappointing clients; seasonal challenges; weather challenges; and clients taking loans and putting them into unproductive ventures e.g. building projects.

According to a staff member:“Microfinance operators are in purely for business to make money for operators. It is the rural and community banking concept that brings real improvement to the lives of community members. This is because the Bank of Ghana applies rules and regulations strictly, which is not so for microfinance institutions. MFIs find a niche mostly because rural banks take too long to respond to the needs of clients… Microfinance has inherent hidden charges that are not disclosed to clients (form fees, processing fees, etc). Clients end up paying more in terms of interest rates.” The three clients interviewed were all of the view that their operations with the Bank have been very successful. Due to the savings habit they inculcate in them, they have been able save enough to expand their businesses without necessarily going to take loans from the bank. None of them had taken a loan to either settle medical bills or pay school fees but one of them, who is married, said that the money saved only goes into business and not for the settlement (payment) of bills (fees). Also, apart from the fact that their operations with the bank have increased their incomes, their businesses have grown tremendously due to the amounts they are able to save with the bank. These are amounts they would have ended up spending. On political grounds, one of them said he recently started taking part in active politics and said that monies he has saved so far are going to go a long way to enhance his political ambition. They all agreed that they have more friends as a result of their savings with the bank. One of the men even said that his mobile phone business has flourished because some of the workers of the bank even patronize his business by buying mobile phones from him.

This community bank takes time to train its clients both on the judicious usage of loans and the need to develop good saving habits and these have gone a long way to help them to expand their business. The clients also said that the workers of the bank are very quick in serving them any time they arrive at the banking hall.

One female client complained about the bureaucratic nature of getting a loan. She was unable to acquire the loan she sought. Another client explained that because of fear of the police and public disgrace, she always pays early. She also added that the bank rewards loan takers who paid earlier before the deadline. She added that the loan has improved her life and her business since she is the primary breadwinner and can now pay for her children’s tuition and give them better meals.

4.4 Site 4:[5]

This MFI is another rural bank. Here, too, women outweigh men in terms of the numbers when taking loans and women have a lesser default rate than men, mostly because of fear. The interviewed staff all agreed that their preferred clients were women, because women have a greater repayment rate, hence giving the company more profit in operating. Started 30 years ago by a local chief whose motivation was to mobilize funds to support the socio-economic development of the locality. The MFI currently has a total of 10 branches. The bank has two major operations namely formal banking and micro financing, especially for small-scale women retail traders. Its expressed goal is

[5] *Fieldwork conducted on 14th of June, 2012.*

"alleviating poverty among the rural poor." The bank has a rather large client base. In Mankessim alone, the bank works with 60 groups of 20-25 members each. According to the staff, loan recovery rates are very high, particularly in the rural areas and villages. This is mostly due to the requirement that loan officers take clients through a minimum of six months of orientation before loans are disbursed to them. Interest rates on microfinance loans are 3.33 percent per month on a reducing balance basis. The MFI draws its own funds from savings from customers, donors, and other external sources. One field staff recounted some of the success stories of the bank: They have helped some farmers in the rural areas by training them to use improved methods of farming (mechanized ploughs, improved seeds). This has led to increased output and incomes, improved nutrition, and increased levels of enrolment in schools. They organize periodic workshops aimed at transforming the lives of clients socially, politically, health wise, and economically. It has a monitoring team, to monitor the activities of clients and conduct research on customer satisfaction. Their challenges are the diversion of loans into unproductive activities, operational challenges (distance to clients' business sites for monitoring purposes), increasing overhead cost, increasing lending cycles, which grow out of lending higher amounts of loans to client groups, and increased risks of protecting outgoing loans.

The clients interviewed all stated that their coming into contact with the bank has been a success. The interviewed farmers stated that they have been able to shift from traditional to mechanized farming and are now able to secure loans that aid them in buying and applying inputs (chemicals) to their farming. Pineapple farmers, for example, are now able to use plastic mulching on their farms and are now able to acquire improved seedlings that allow up to three yearly harvests. The interviewed women said that they are now better able to properly cater for their families, which was hitherto not the case.

Some of the interviewees had taken loans before and others had not. For the clients, their health conditions have improved because the training given to them by the banks has a health component in it. The health component sometimes comes in the form of advice on family planning so as to keep their expenditure at levels that do not put a strain on their incomes. Average incomes of clients have also improved as a result of their ability to save and to access funds that are provided by this MFI. Women, who are mostly the beneficiaries of these loans, are enabled to help their husbands pay for their children's education, which has helped alleviate some of the prominent educational problems, according to the statement of a client. The women who joined lending groups have become friends with other women both within and outside their groups, which can be seen as a positive outcome as far as social capital is concerned. The group activities have also consolidated and strengthened the social and entrepreneurial networks thus creating positive spillover effects among group members.

With what this MFI calls "credit with education," the beneficiaries of loans are trained for three weeks before receiving a loan. This education seems to strategically position clients at levels that make them better users of the funds loaned out to them. Officials of the bank also visit the beneficiaries weekly to assess the performance of their businesses after securing the loans and to also make sure that the amounts loaned out to them are used specifically for their intended purposes.

5. PRELIMINARY FINDINGS

The seminar, as well as the field visits provided enough empirical material to delineate some preliminary findings and conclusions, even if tentative. These can be bundled into eight themes:

5.1 Variety

Financial products offered by different MFIs operating in the same region vary widely (see Table 1) – as do the interest rates charged, some reaching over 40 percent per year. Interest rates are comparatively high in general, because some MFIs borough from commercial banks and then lend to small clients. In addition, MFIs have relatively high operational costs, particularly those MFIs that engage in cost-intensive training and monitoring services, sometimes imposing them as conditionalities for giving out a loan. While these activities might have a positive effect on the loan-takers, offering training and educational services in an environment where access to formal educational is severely restricted, it became clear that these activities are also self-serving. Through them, the bank asserts control and pressure, if needed. The lack of assets, thus represents a complicating factor for both actors: for the banks, a lack of assets leads them to lend forward and charge higher interest rates to poor clients. For the clients, a lack of assets leads to the obligation, enforced by some MFIs, to form groups as a condition to receive a loan. While risks for the bank can be mitigated in this way, the participating clients face the risk of entering a potentially stressful situation, as the pressure of fellow group members adds to the pressure from the bank in case of delay or default. Several interviewees repeatedly mentioned the risk of facing "public shame." This risk was particularly strong among women, who are less mobile and able to leave a shameful situation.

5.2 The Cost of Regulation and Oversight: Informality Redone

Illiteracy rates in Ghana hover around 50 percent and the percentage of people active in the informal sectors is around 80 percent. Informality thus characterizes a great part of the Ghanaian population. Due to their informality, access to formal structures of power and money (governments and banks) is rendered almost impossible to the poor and illiterate. MF organizations step in and cater to this informal sector. However, the Central Bank of Ghana, through a special unit called APEX, started to demand more accountability from the booming MFI sector and asserting more control. This comes with a requirement to provide adequate book keeping records, accounting information, and to engage in auditing activities. The costs associated with these operations force MFIs to pass them onto their clients, thus making loans more costly. APEX represents an attempt by the Bank of Ghana to better control MFIs, which in general, has positive affects. However, the more formalized MFIs become, the further away they move from the informal sector. The tension between formality and informality is an ongoing thread characterizing the entire microfinance sector.

5.3 The Power of the Formal World

Interviewees expressed fear and suspicion against the representatives of the formal world, who typically wear suits and ties. Colonial legacies are transported in this formal, European, dress code. The MFI representatives that display these symbols of formal, colonial power put themselves on the side of the formal world, the world of power, money, and control. Susu men step in and bridge this gap between the formal and informal world. They are typically trusted members of local communities and they can provide a way of saving money to the informal sector. They can also function as middlemen between the informal population and the formalized banks. Banks recruit them for this purpose.[6]

---

[6] "Susu" is a form of traditional savings mobilization regime or system has taken centre stage in many financial institutions in Ghana. Several financial institutions, particularly MFIs, integrate this traditional financial service into their practice. Many of these MFIs refer to this as "taking banking/financial services to the door steps of their clients," as, according to them, "some clients have a bank phobia." However, independent Susu operators survive as well and operate alongside MFIs. These are normally individuals or groups of individuals, some licensed by the Bank of Ghana or APEX, others not. From this preliminary study, one realizes that there is growing interest in Susu operations in the financial sector and this explains why many financial institutions, mostly MFI's, offer this service. Thus, many MFIs have offered Susu services to their clients over the past years. Some have been in Susu operation for about 15years now. For Susu, the minimum daily saving is 1 Ghana Cedi, but can reach up to 500 Ghana Cedis or more. Market women dominate in many occasions. Susu clients are also predominantly petty traders or start-up business owners. Most Susu clients are illiterates or have just some basic education and are thus effectively barred from the formal sector. Many MFIs use Susu as a means of saving mobilization. They don't go beyond the shores of just savings. Other MFI's in additions to mobilizing their clients savings also offer them loans. There are also some institutions that even go beyond just financial services to health/education talks, training on financial management, records keeping, the need to inculcate savings habits, how to manage their financial resources in the challenging economy, family issues, and many more. Some institutions also liaise with insurance companies to insure the businesses of their clients. But the predominant services to Susu clients are savings platform and loans. In terms of loan advancements to clients, terms and conditions differ from one MFI's to another. Clients are supposed to make Susu savings for a minimum of 3 months before they can qualify for loans. Some MFIs demand up to 6 months of contributions before loans can be given out to clients. In terms of the total amount loanable to clients, clients need to have a quarter of the loan they seek as savings in their Susu accounts. Others MFIs don't give more than twice of their savings as loans to clients. Some MFI's don't give loans to Susu clients, stating that "Susu clients don't pay their loans." It is important to remember that MFIs do not pay interests on Susu savings; they rather charge a monthly commission, often stating, that "we are not so much interested in our commission, we want clients to cultivate the habits of saving." There are reports of some institutions that do not even charge commissions in other to attract more clients. Some MFIs also pay interest on Susu savings, which they then convert into regular savings accounts after the initial 6 months of contributions. Some MFIs deploy Susu field cashiers for the sake of client mobilization. These MFIs give uniforms and ID cards to field cashiers for identification, thus hoping to instill financial security and trust, as "everything is based on trust." Field collectors are not allowed to keep large sums of money with them for security reasons, even though they are covered by an insurance. Most clients expressed a preference for female field collectors. Clients make either daily, weekly or monthly contributions to their Susu account. Others make contributions depending on when they have money. One major challenge Susu operations is that field cashiers have been running away with the monies collected. Some field collectors also do not report all the monies

collected from clients and this creates discrepancies between the clients and the institution. Records of clients sometimes don't tally with the institution have. Some field collectors enter into conflicts of interest, as some enter romantic relationships with clients. Female field collectors have been harassed and even raped by male Susu clients.

Susu operators often start in the business because they already have the trust of the community. As one operator explained: "some people came and ran away with my clients money, so it came to my mind to do it. I announced it in the church and few people started. The church members introduced me to others." Some Susu operators have more than 200 active clients but complain about the long distances. "I have plenty customers, but I can't cover all in a day." Most of these clients are petty traders or business starters trying to save money for their businesses. Here, too, most are women with no or little formal schooling. Clients are mostly people who earn small amounts of monies daily, such as taxi drivers, field workers, etc. Susu operators charge a commission and they don't pay interest on savings. They also make prompt payments to clients anytime they need their monies - this why clients prefer the operators to MFIs. However, in recent time there have been cases where Susu operators have absconded with depositors money. One important feature of Susu operators is that, the operator should be well known and respected among his/her clients- there should be that mutual trust. He should be someone that the community knows him very well. Susu clients have varying periods of contribution. Of those I interviewed, some had been contributing for 2 years, others for 5 years and more. Susu clients included photocopying operators, popcorn businesses, fishmongers, taxi drivers, petty traders, and provision shops owners. Most Susu clients I interviewed also had accounts with formal banking institutions. Due to the convenience nature of Susu, most Susu clients rarely go to the bank for transactions. According to most statements, clients prefer Susu because it helps them to save and it prevents frivolous spending. One man explained: "I keep small amount in Susu and large amount in the commercial bank." A fishmonger women said: "I save small amount in Susu, I don't have time to save small amounts in banks, when I get huge sums of money, then I go to the bank to save." A man explained that Susu helped him acquire a television set, a burner and cylinder, a TV stand, and a standing fan. It also allowed him to expand his business and employ people to take charge of his business. He also is now able to pay his brother's school fees and to pay health insurance. Susu, to him is to solve problems arising from emergency situations. Overall, Susu has improved his savings and it has helped him build a habit of saving regularly. One man explained: "Susu companies can give us loans, they double our savings." He saves weekly, in the amount of GH50 and holds Susu savings of GH1500. However, among those interviewed, daily saving is predominant. Most clients rate Susu as very good. Statements collected include: "as a young boy, if you do Susu, it will help you"; "I will recommend petty traders to do Susu, and avoid long queues at banks"; "I use the savings for my family upkeep in the lean season. I pay for my children school fees"; "I use my Susu savings to solve emergency problems, I just need to call the Susu operator."

However, some problems were also readily identified: "some of the operators are not registered, some come without uniform or any identification, they run away with our money and they are not easily located." A fishmonger women explained: "I have never taken loan, I fear. I even contribute to the extent that the bank even recommend that I should take loan, but for fear of harassment in event of default, I rely on my Susu savings."

Formality is more threatening and intimidating to women. Their default rate is lower than that of men, because they are more scared and intimated by this formal power than men. Women also fear to be shunned by the community more than men typically do. Women are less mobile than men, thus less able to simply run away, once a loan goes bad. In other words: women's agency is reduced and their risks heightened. On one side, participating in MF schemes provided them with an opportunity to increase their agency. However, doing so comes with new risks. Hence an inherent problem of formalization: small groups, after growing, are required to follow the guidelines of the Bank of Ghana [10] (e.g. auditing and bookkeeping). Fulfilling these requirements is costly and forces these institutions to accumulate more money for themselves, which is not part of their mission. In sum: new regulatory requirement, issued by the Ghanaian central bank government are at risk of causing mission drift and loan diversion.

5.4 Mission Drift and Local Appropriation of Ill-adapted Policies

It appears that many clients take out loans not to invest in businesses, but to cover educational, housing, nutritional, and other expenses. This represents a mission drift, as micro-loans are supposed to help small and incipient entrepreneurs. The reality is that MF is very available as MFIs abound, but other social programs, targeting educational, health, or housing expenses, are not available. As a result, local people appropriate the one tool available to meet their true needs. This points to the limits of policies that are not growing out of local needs (demands), but originate externally. In this case, MF has become a one-policy-solves-it-all solution that finds fertile grounds in such underserved environments as in Ghana. The widespread mission drift and local appropriation however point to the need for more specific and targeted policies, aimed at education, health, and housing.

5.5 Combating a Tradition of Clientelism and Lack of Accountability

On the positive side, MF effectively combats a tradition of clientelism and corruption, fostered and sustained by unconditional giving. MFIs spend much effort in incentivizing and training for responsible lending and they inculcate saving habits. Most of their efforts go into collecting outstanding debt and they spend considerable resources in this area. However, MFIs can also contribute to perpetuating clientilism and cronyism, which is normally caused when politicians enter the world of microfinance. We have observed that political leaders associated with a MFI can distort the lending process: their clients feel entitled and expect gifts, not loans, thus undermining the logic of accountability potentially nurtured by MFIs.

5.6 Different Logics

Banks, no matter what type, develop their own logic of institutional survival, growth, and expansion. MFIs are no exception to this rule. They too seek to lend more and more aggressively, particularly to those whose credibility has already been established through previous lending and successful collection. However, this institutional logic of lenders runs contrary to the idea of microfinance, which does not aim at lending to satisfy the lender, nor at lending whenever possible, for its own sake and good. To the contrary, lending should lead to independence and to an end of lending. If this logic were followed, MFIs would not survive, but they do, by continued lending to those that are credit worthy. One of the already visible side effects of this tendency is that those whose businesses fail, or those that never intended to start a business and used a loan for other expenses, end up worse off than before. They are now poor and in debt.

We fund loan diversion to be very prominent. We also found that the same client might apply for different loans at different lending institutions at the same time. Cross-lending, forward-lending, and diversion of loans are all common. This reflects a problem of donor-driven project design: high requirements and extra-demands on the lending institution, e.g. monitoring and evaluation, plus impact assessment, which lie outside the capacity of the lending institution and cost extra time and money, resulting in mission drift and loan diversion, ultimately caused by the imposition of an external donor logic and a lack of catering to true, local needs.

5.7 Religion

The dominant religions in Ghana are Christianity and Islam. Both religions forbid usury, but Islam is stricter in its enforcement. Hence, Muslims are not allowed to earn interest on their deposits. To them the Susu system is more attractive: Muslim Susu clients oftentimes deposit the daily minimum of 1 Cedi for one month. The Susu collector charges them one daily deposit every month. In this way, money is saved, but no interest earned.

5.8 Gender

Given their higher mobility, men are more prone to default. The very prominent practice of group lending to ensure collateral also has its pitfalls, because if one member is unable to meet payments, the whole group disappears. Group pressure can add additional stress on already very stressed loan-takers. Public shame and social pressure can increase the risks and pressures on lenders. In general, we found that women are more reliable lenders than men, because: (a) they are less mobile; (b) they are more vulnerable and hence more intimidated and have more fear of reprisals in case of default. There also is an urban – rural component to this story, as farmers tend to be poorer, but more stable and reliable. The default rate is higher in urban areas. Our findings thus resonate with and confirm those of Weber and Ahmad, 2014. [15]

6. PRELIMINARY CONCLUSION

This pilot study was able to highlight some of the variables relevant to a more complete assessment of microfinance in general and in Ghana in particular. For a more complete picture, a more intensive study should be conducted. The best way to assess the long-term affects of microfinance on poverty alleviation and on the agency of lenders is a longitudinal study.

This research has shown that microfinance in the Central Region of Ghana is very diversified, covering a broad range of institutions and services. Different from commercial lending, most MFI loans have educational components (Table 1) and require participation in training. Conditionalities are often severe and long lasting – and so are monitoring and enforcement actions. This must be seen as a strategy of the MFIs to avoid defaults, but it has positive spillover effects on the clients, as these can benefit from these educational opportunities. This seems particularly relevant in a country with a majority of adult illiterates.

In final analysis, and considering the different challenges, pitfalls, shortcomings, as well as success stories of the 12 MFIs that composed the sample of this research, several hypotheses emerge that should be tested systematically: Given that many loans are diverted towards unproductive ends, the question arises if business loans are indeed the most needed form of service needed by most poor Ghanaians. Education, health, and housing rather seem to rank first. Given that these services are often not available, many MF loan-takers divert their MF business loans to cover other needs. This sort of very common loan diversion is an indicator that the most urgent needs of most Ghanaians are not to become entrepreneurs, but to satisfy their basic needs. MF loans are simply the only avenues available – so clients divert them towards their true needs. Our findings thus resonate and confirm the findings produced by [16].

The strong and persistent of Susu indicates that informality and illiteracy pose great barriers for most of the poor. To them, the formal world, which includes banks and governments, is a world that has remained to a great extent foreign and potentially hostile to them. In Ghana, this also carries a colonial connotation, as the "men in ties" represent this formal world from which nothing good can come. In other words, as with most governments and formal institutions, elite capture is a problem. Instead of arising from the people, these institutions reach them "from above," imposing rules and regulations on them. Ideally, in a democratic society, government institutions as well as economic institutions should be perceived as not only "for the people," but "of the people" – so that "the people" do not have to face fear and entrance difficulties when seeking to access these institutions. This ideal is, however, a distant reality not just in Ghana. Susu, to the contrary, is a practice from below and as such enjoys the trust and support of many. As banks have realized this conundrum, they started working with Susu operators in order to reach poor clients. However, it is not quite clear if those clients reached in this way are actually better off after receiving high interest loans. It rather appears that the main cause for success of MFI is not lending, but saving– something that Susu also provides. Most clients have explained their success with MFI with reference to a "saving culture." Thus instilling a saving culture seems more productive, in theory as well as in practice, then the "lending culture," which some MFIs seem to inculcate. Susu also strengthens community ties and instills trust and control among savers and the Susuman, which must be seen as a positive spillover effect, or externality, of this activity. In final analysis, it is thus not lending, but saving that seems to explain most successful MF client trajectories. When considering the great amount of loan diversions, we conclude that MF is mostly treated as a means to an end, where the end is often not to become an entrepreneur and business owner, but to ensure good health and education.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

REFERENCES

1. Armedariz Beatriz, Jonathan Morduch. The economics of microfinance. Cambridge. MIT Press; 2007.
2. Ahlin C, Lin J, Maio M. Where does microfinance flourish? Microfinance institution performance in Macroeconomic context. Journal of Development Economics. 2011;95(2):105-120.
3. Bartual-Sanfeliu C, Cervelló-Royo R, Moya-Clemente. Measuring performance of social; 2013.
4. Garmaise MJ, Natividad G. Information, the cost of credit and operational efficiency: An empirical study of Microfinance. Review of Financial Studies. 2010;23(6):2560–2590.
5. Rooyen CV, Stewart R, de Wet T. The impact of microfinance in Sub-Saharan Africa: A systematic review of the evidence. World Development. 2012; 40(11):2249–2262.
6. Lakwo A. Microfinance, rural livelihoods, and women's empowerment in Uganda. African Studies Centre Research Report no 85. Ph.D. Thesis, Radboud Universiteit, Nijmegen; 2006.
7. Mk Nelly B. Dunford C. Impact of credit with education on mothers and their young children's nutrition: CRECER credit with education program in Bolivia. Freedom from Hunger Research Paper No. 5, Freedom from Hunger, Davis, CA; 1998.
8. Nanor MA. Microfinance and its impact on selected districts in eastern region of Ghana. College of art and social sciences. Kumasi. Kwame Nkrumah University of Science and Technology; 2008.
9. Basu Anupam. Microfinance in Africa: experience and lessons from selected

African countries. IMF Working Paper. WP/04/174. 2004;3-23
10. Bank of Ghana. Bank of Ghana Act, 2002 Act 612. Accra: Bank of Ghana; 2002.
11. Steel W, Andah D. Rural and Micro Finance Regulation in Ghana: Implications for Development and Performance of the Industry. Washington, DC: World Bank. Africa Region Working Paper Series. No. 49; 2003.
12. Adjei JK. Microfinance and poverty reduction: The experience of Ghana. Accra: Bold Communications Limited and non-profit Microfinance Institutions (MFIs): An application of multicriterion methodology. Mathematical and Computer Modelling. 2010;57:1671-1678.
13. Yunus Mohammed. Banker to the poor: The autobiography of muhammed yunus. New York: Oxford University Press; 1999.
14. Sen Amartya. Development as freedom. New York: Random House; 1999.
15. Weber OA, Ahmad A. Empowerment through microfinance: The relation between loan cycle and level of empowerment. World Development. 2014;62:75–8.
16. Gobezie Getaneh, Carter Garber. Impact assessment of the microfinance programme in Amhara Region of Ethiopia. FAO Conference paper; 2007. Available:http://www.fao.org/ag/rurfinconference/docs/papers_theme_5/impact_assessment.pdf

Peer-review history:
The peer review history for this paper can be accessed here:
http://www.sciencedomain.org/review-history.php?iid=817&id=21&aid=7107