Sustainability of Microfinance in Ghana: A Theoretical Perspective

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Abstract
Microfinance has been a key development tool, and despite the current keen competition within the sub-sector, it continues to grow within the African sub-region. The microfinance sector has over the years thrived and developed into its current state through the help of various reforms in the financial services sector. Due to the increase in the number of microfinance firms in Ghana over the last decade, the monopoly enjoyed by the formal financial sector is being broken with increased competition and the provision of variety of financial products to meet both the financial and non-financial needs of the less privileged. This article discusses some activities related to the provision of micro credits including their products, clients, sustainability, and management issues.

Keywords: microfinance, sustainability, welfarists, institutionists, outreach

1. Introduction

Microfinance is common practice where people save or take loans in order to engage in small scale business financing or farming activities. The last decade has seen the influence of microfinance institutions (MFIs) in the Ghana in terms their numerous contribution to economic growth. They have also created employment and income opportunities for the rural poor and disadvantaged micro entrepreneurs. The micro finance sector over the years has thrived and developed into current state with the help of various public and financial sector reforms undertaken by the various governments from independence to date. The increasing number of MFIs, whether registered or informal suppliers such as susu collectors play an important role in the micro finance industry in Ghana as they have been known to provide alternative source of income and variety of services to those who have been ignored by the formal banking sector in Ghana. With the increase in the number of MFIs, the monopoly in the financial sector has been broken with increased competition and diversity of products to meet both financial and non-financial needs of the poor. The increase in the MFIs is also expected to improve.

According to Aryeh (2011), the increase in the number of MFIs in Ghana emanated from the experiences and success of some MFIs in Ethiopia, Kenya and Uganda. The popularity of MFIs can also be attributed to the recognition given by governments and some international donors. Also many more entrepreneurs are investing in micro finance because of the fact that low income earners and the productive poor can improve their livelihood access to microcredit. Whilst some of them engage in micro financing for commercial purposes, others engage in it for profit. For many others, it is a mixture of both. This presupposes that to be able to serve the poor, rewards play a vital role in attracting financial and non-financial service providers. The Consultative Group to Assist the poor (CGAP) (2009) conducted a study in Zambia and saw that half of the people that do not save with the banks are not poor but bankers locations are too far. Other studies (Hanohan & King, 2012) have also supported the fact that physical distance to formal financial institutions has been a constraint of opening a bank account, mostly in Sub Sahara Africa. Of the 11 countries in SSA surveyed by King (2012b), 65% of the people were found to live in rural areas. Thus, the study concluded that geographical distances play a key role in attracting financial and non-financial services. The situation is not different in Ghana. Thus the mobile banking and other forms of savings and mobilisation

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of funds have tried to bridge the gap by trying to take banking services to convenient location of its clients. Ayeh (2011) noted that the operation of the mobile banking and other forms of micro finance have led to the successful mop up of excess funds from the internal sector to the more formal financial stream. He further noted that most Ghanaians can improve their savings culture if physical distances are minimised. This is supported by the fact that a lot of people have consistently saved with trusted mobile bankers (susu) in their localities. Due to the success of this micro finance scheme, some commercial banks have also adopted the scheme to improve their deposit mobilisation as well as offering small loans to small business owners in the informal sector.

As has been alluded to, interventions by various governments have helped the micro finance sector – some of the policies include:

- provision of subsidised credits in the QSOs;
- establishment of Agricultural Development Bank (ADB) in 1965 to address the financial needs of the agricultural sector;
- establishment of rural and community to promote lending to agricultural sector and SCI in 1970 and 1980;
- liberalisation of the financial sector around 1986; and
- the enactment of laws in the early 90s for the establishment of non-bank financial institutions including savings and loan firms and credit unions.

As noted by Steel and Awuah (2003), Ghana developed a national strategic framework as part of the financial sector reforms to minimise obstacles and improve access to micro credit by minor, small and medium scale enterprises (MSMES). The aim of the strategic framework was to bridge the gap and foster integration in the financial sector to be guided by reliable regulatory system. The framework was also established to the decentralisation of financial and non-financial institutions, prudently managed and regulated with tight links within the formal banking sector as well as a tool for effectively reaching the poor. Due to the variety of products offered by MFIs, it is realised that most of their clients come from the informal sector of the economy. The wide acceptance of the scheme has motivated some individuals and businessmen to set up their own micro finance firms. Like other studies that have been conducted in the Sub-Sahara Africa, accessibility or physical distance is a key determinant of developing a savings culture among Ghanaians.

According to Aryeetey et. al, (1994) and Aryeetey and Ahene (2004), SMEs in Ghana are known to face many challenges that hinder their development. Their research revealed that the challenges of SMEs are linked to the lack of clear vision of the role they play in economic development. There is also the absence of policy framework as well as interventions to promote their growth and sustainability. The environment in which small businesses operate justifies the fact that they need support in terms of the right interventions and regulatory environment to be able to survive competition. Another challenge is that most of these small businesses, due to their size are not able to acquire the needed resources to further their operations. SMEs also lack expertise and managerial competence which makes them vulnerable in the ever changing business environment (Osei et al, 1993). Above all, the economic environment is characterised by rising inflation rate due to depreciation of the local currency as well as unfavourable and inefficient fiscal policies. In an attempt to minimise the challenges faced by small enterprises and also to modernise the economy, the first President of the republic encourage state involvement in import substituting industries. In addition, the cost of development became high due to increased importation of goods and pressure on foreign exchange (Aryeetey and Ahene, 2004). This situation led to the enactment of the Exchange Control Act in 1961 and the subsequent establishment of the Export Promotion Council in 1969. This was to help improve the export of non-traditional products.
SMEs in Ghana have been acknowledged to face many challenges in their development and this is often linked to the absence of a clear vision of their roles; the lack of clear or credible policy framework; and distinct credible interventions to promote their growth and expansion. It may be noted that local entrepreneurship was not seriously promoted in Ghana in the colonial period and in the early 1960s, as small-scale enterprises were seen as political threats. State involvement in import-substituting industries was the approach of the President of the First Republic in his bid to modernise the economy. Due to the heavy importation of raw materials and intermediate goods, the cost of development became high with pressure on the foreign exchange situation, which led to the enactment of the Exchange Control Act in 1961. Import licensing was introduced with quantitative restrictions, high tariffs and administrative restrictions on prices. The Export Promotion Council was established in 1969 to improve exports in the economy including non-traditional goods. This was certainly not an environment that was supportive of small enterprises.

By the 1980s, there was continuous deterioration of balance of payment which led to the high inflation, over utilisation of the manufacturing sector and the overvaluation of the exchange rate. Due to the increase in the labour force during the period, the state found it difficult to support the working population because not enough jobs were created. A lot of people decided to create their own jobs (entrepreneurs) even though the self employment was low and informal. The manufacturing sector which employed a lot of labour became stagnant due to a decline in the economy. As noted by Steel and Webster (1991), self employment and the small scale sector grew by 2.9% p.a. but a lot of the activities were not value added.

The Structural Adjustment Programme (SAP) and the Economic Recovery Programme (ERP) were implemented due to the deterioration in economic conditions. The aims of the programmes were to remove distortion in the markets. Trade and industrial policies under these programmes sought to restore incentives for the production of food and industrial raw materials. The programmes also allowed for the removal of trade controls, improvement in foreign exchange and price control mechanisms. Also, under the SAP and ERP, interest rates improved, tariffs were reduced and the investment code revised. Even though all these measures were put in place under the reform programmes, small business continued to face difficulties in their operations.

According to Parker et al (1995), about 95% of enterprises in OECD countries are SMEs which generate most of the private sector employment. They noted that the sector employed about 15.5% and 14.09% of the labour force in Ghana and Malawi respectively. Currently, SMEs constitute about 92% of the businesses in Ghana. A study was conducted by the Frimpong (2013) on the state of the Ghanaian economy and found that SMEs contribute to about 85% of employment and 70% to GDP. Parker et al (1995) noted that even though SMEs employed a small number of people, the number of people that depend on them for livelihood and sustainability is and continue to be very high. This is linked to the informal nature and the limited number of transactions performed by SMEs. Again, SMEs are acknowledged to face growth and sustainability problems in most parts of Africa of which Ghana is no exception. These problems push them out of business and hence many of them never go through any expansion in terms of productivity and employment generation. It is however, not clear if these problems arise out of some specific public or structural policies, which is likely to result in an attempt to solve them with some policy and control measures. Some surveys reveal the common problems faced by SMEs including but not limited to: lack of technological knowhow; inappropriate policy documents on the scope of their operations; lack of skilled management as well as institutional capacity (Aryeetey et al, 1994; Brau & Woller, 2004; Anim et al, 2008)

Trade liberalisation policies under the ERP and SAP exposed many small enterprises to unfair competition far beyond their control that they could not withstand. A lot of the small enterprises count not export their output due to the lack of international marketing experience, institutional capacity, low quality of output, little or no access to international partners and lack of product standardisation. SMEs are also noted to incur high cost during their start-up which puts a lot of stress on them. Some of the start-up costs include registration and initial capital requirements as cited by most surveys. However, even though Aryeetey et al (1994); Brau and Woller (2004); and Anim et al, (2008) agree that registration procedure is the common setback of SMEs, it accounted for less than 1% of their sample. Their study for example, concluded that SMEs lack protection for their property which prevents them from using the right technology in their
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operations. Lall and Pietrobelli (2002) also found high cost of settling legal claims and excessive delay in court as challenges that hinder SMEs’ progress. Their study concluded that due to these setbacks, investors reduced their funding which was evidenced by a reduction in foreign direct investment (FDI) inflows in the middle to late 1990s.

A review of literature revealed that changes that occur in the legal and regulatory environment have different effects on different firms and in different ways. This means that firms in different stages of development respond differently to changes in the regulatory environment; so that larger firms are likely to adapt quickly to for example, tax changes than their smaller counterparts. The regulation of products, pricing and labour also had negative effect on SMEs. Also, because they lack physical, managerial and institutional capacity, SMEs are not able to solve all these problems effectively as they mostly apply informal techniques to problem solving than larger firms. Even though these informal problem solving skills can generate expansion of the business, it has its associated costs.

Over the past decade, a lot of institutions were created to manage the development of SMEs but their roles were not clear. For this reason, the National Board of Small Scale Industries (NBSSI) was set up to promote the activities and development of small and medium sized businesses in the country. It is however not clear their scope of regulatory authority. As noted by Anim et al (2008), regulatory issues have never been a policy objective until some kind of intervention between mid-1970s and early 1980s to reserve some categories of small businesses to Ghanaians. Suffice to say that in as much as regulatory frameworks are supposed to promote innovation and healthy competition, which may result in economic growth, the operational features of SMEs make it difficult for their regulators in improving the environment for SME development. This paper there throws more light on the activities of microfinance firms, one of such SMEs and how their activities can be sustained.

2. Theoretical Perspectives

It is evident that people who are in a low class category do not benefit from any formal financial systems. According to Brau and Woller (2004), exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in lesser developed countries (LDCs). They argue that due to the absence of access to formal financial services, the poor have developed a wide variety of informal, community-based financial arrangements to meet their financial needs.

Research has shown that, an increasing number of formal financial organizations (non-government, government, and private) have been created for the purpose of meeting the needs of the poor in society. In Ghana, for instance, microfinance firms have been formed to offer financial services to the poor who generally do not have access to the formal financial sector like the banks. Microfinance has been in existence but many people have still not felt their impact due to the rise of formal financial systems. Within the last four decades, however, numerous effort have been made to globally formalise the provision of financial service to the poor. As put forth by Christen et al (1995), the process of formalisation began around the early to mid-1980s and has since gathered an impressive momentum. Presently, there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world’s poor (Christen et al., 1995; Daley-Harris, 2009). The formation of these MFIs began at the grass-roots but has gradually evolved into a large and global industry with finance and commercialisation as the main motive. In the works of Mutua et al (1996), MFIs have demonstrated that it is possible to mobilise a lot of funds (social investment) and provide cost-effective financial services to the poor. They concluded that it is not only the poor who are beneficiaries of financial services but the non-banked population and that a variety of lending methodologies have been established thus making it possible to provide financial services efficiently.

Another important reason for the formation of microfinance movement is the alleviation of poverty. It should be emphasised that not only are microfinance firms supposed to help the poor and vulnerable but also pay themselves by making some profits. Because of this motive, a lot of MFIs have transformed their operations. With this expansion, the industry has evolved into a global one with diverse workforce and
clients. Since MFIs have to sustain their operations to be able to provide financial services, the next section discusses issues on self-sufficiency and sustainability of MFI operations.

3. The Self-Sufficiency and Sustainability of MFIs

The microfinance literature reveals that unlike formal sector financial institutions, the large majority of informal sector MFIs cannot sustain their activities. Sustainability here is used in MFI literature to mean financial self-sufficiency. One reason accounting for the unsustainability of the informal MFI is their inability to minimise cost of operations. A number of the MFI also thrive on government subsidies and gifts from other financial NGOs. Gonzalez-Vega (1994) analysed the failure of rural microcredit agencies established by the governments of most LDCs in the 1970s and 1980s and attributed the cause to lack of institutional viability. The study concluded that (i) institutional sustainability was key to successful provision of financial services to the vulnerable and rural poor; and (ii) financial self-sufficiency was a prerequisite for institutional sustainability. Some empirical works by Woller et al., (1999a) and Morduch (2000) found that the microfinance industry is dominated by two paradigms – institutionist and welfarist. The institutionist paradigm asserts that MFIs should be able to use their revenues to cover operations and financing costs. The work of researchers at the Ohio State University on rural finance programme formed the conceptual foundation of the institutionist paradigm. For example,

Morduch (2000) reports that the focus of the institutionist paradigm was creating MFIs to serve the poor or clients who cannot obtain credit from the formal financial institutions. He argues that the institutionist paradigm aims at achieving financial dependence, financial self-sufficiency, and large number of clients. The core issue here is that for MFIs to survive and attain institutional success, they first have to achieve financial self-sufficiency.

The welfarist paradigm, on the other hand, disagree with the institutionist paradigm on the grounds that MFIs can survive only when then achieve financial self-sufficiency. The welfarists argue that MFIs can achieve sustainability through donations and that these donations can be a source of equity financing, with the donors being social investors (Woller et al 1999; Morduch, 2000; Navajas et al., 2000). Since these donations can be are considered as being socially responsible, the welfarist paradigm contends that MFIs should be able to sustain their operations without necessarily achieving financial self-sufficiency. In addition, it is argued that these social investors are most of the time willing to accept lower or even no financial returns because they receive social or intrinsic return.

The welfarist paradigm, in addition laid more emphasis on alleviation of poverty, depth of outreach and measurement of success based on some social metrics. This is however, not to say that financial and self-sufficiency does not matter. They are more committed to achieving high social returns than their institutionist counterparts who are more concerned with higher financial returns. Even though some authors (see vonPischke, 1996) argue that there exist some trade-off between financial self-sufficiency and depth of outreach), other (Morduch, 2000, Brau & Woller, 2004) disagree with this trade-off in terms of its nature, extent and implications. To this end, Navajas et al (2000) found that MFIs can achieve true financial self-sufficiency only if they provided loans to clients who are ‘slightly above’ or ‘slightly below’ the poverty line.

4. Microfinance Institution Products

All microfinance institutions are known to design and provide similar products and services as those in the formal financial sector. Even though the delivery methods differ, the basic or core services include savings, loans and insurance. According to Nourse (2001) and Woller (2002a), efforts that have been put in place to formalise MFI activities have focused on lending; which remain the dominant service provided by MFIs to date. Due to competition, however, a lot of MFIs began to provide auxiliary services such as emergency loans, business development services (BDS), insurance and investment. Nourse (2001) suggests that MFIs should not only provide credit to the poor but also allow for savings and insurance from the poor. He further argue that instead of providing tough and rigid loan products, MFIs should focus on providing
tailored lending services. Eyiah (2001) developed a model by which MFIs can provide tailored lending services for small construction management contractors. This model, which is solely for those contractors in developing countries provide a tailored lending structure for MFIs to follow in the lending activities. Follow up studies on MFI lending also concluded that microfinance firms need to be more customer oriented by providing differentiated financial products to meet the diverse needs of their clients as well as other poor people in the society.

The activities of most MFIs suggest that microcredit is often given without collateral. Because a lot of their beneficiaries are extremely poor, physical collateral will prevent a lot of them from accessing microcredit. In addition, due to the fact that these borrowers do not possess physical capital and other property, MFIs focus on using social collateral mostly through group lending (Brau & Woller, 2004). The main aim of group lending is the issue of joint liability as the group takes over the underwriting, monitoring as well as enforcement of the contract from the microfinance firm (Wenner, 1995). Also, under group lending, individual members of the group are responsible for the loans and defaults of other members. It is therefore, in the best interest of each group member to ensure that other members pay or else the entire group lose access to future loans. Islam (1995) found that the issue of social collateral and peer monitoring enable MFIs to charge lower rates relative to the larger and more formal lenders. He further noted that with a lower interest rate, the expected repayment rate is higher with lower risk. Ghatak (1999) concludes that group lending increases repayment rate due to social collateral and joint liability. Woolcock (1999) further posits that the issue of social collateral affect the reputation of the group as repayment of loans is necessary for the group to maintain its image and position in the community.

With the emergence of microfinance institutions, there was an assumption that the traditional lenders may lose a larger portion of their customers due to vigorous competition. This however turned out to be a façade as the demand for microcredit has rather surged with the increase in number of people demanding for microfinance products. A study by Perry (2002) in Senegal showed that most money lenders obtained funds from local MFIs to support and finance their money lending activities to small businesses. They concluded that because the terms and conditions of the loans offered by many money lenders do not make them suitable for enterprise financing, the loans offered are also generally not suitable for consumption purposes.

In discussing the role of Pawn Shop leading in Malaysia, Ishmael and Ahmad (1997) found that their role in lending has increased over the past decade and are even projected to continue due to the regulation of interest rate, financial liberalization and more conducive environment for the financial sector. Brau and Woller (2004) noted that savings services offered by MFIs are divided into two: forced and voluntary. The forced savings is a situation where participants of savings scheme are required to save a certain amount each week or other specified time period. This type of savings, the authors noted, make the saver financially disciplined. In addition, there are restrictive rules on when and how clients may withdraw.

According to Montgomery (1996) and Nourse (2001), the second form of savings is known as voluntary or flexible savings. They noted that even though a lot of the poor in society do not own businesses, they do some kind of savings, usually at inconsistent intervals and in small amounts. Grosh and Sonolekae (1996) and Beverly and Sherraden (1999) noted that these types of savings help the poor households in case of some external shock and emergencies. That is savings allow the poor and venerable to take advantage of these little investments.

Following the discussion, it is evident that MFIs challenges are quite similar to those in the formal sectors. This means that MFIs can adopt the same finance tools as the formal financial sector. These characteristics provide the premise to test existing financial theories. Having examined the products provided by MFIs, the next section discusses the management of MFI activities.

5. Management of Microfinance Institutions

The activities of MFIs require prudent management techniques and strategies. Like every other organization, MFIs also have their best practices and code of conduct. Bhatt and Tang (2001c) for example,
conducted a study on the social, financial and administrative dimension of micro credit and concluded that MFIs will succeed only if they tailored programs to suit specific customers. They opine that research is particularly important in adopting sound management practices. According to Dunford (2000), as the environment changes, best practices also change particularly as the firm matures and grows. This means that the firm must be able to adapt its operations to changes in the environment. Within the extant literature, MFI best practices include relationship with customers, target market (choosing between lending to individuals or groups), size of loan, best interest rate to charge customers and credit worthiness. Bhatt and Tang (2001c), having analyzed MFI vehicles, service delivery and performance concluded that there is no single format that MFIs can use to satisfy the needs of their target markets and that as a matter of public policy, it is important to develop a marketing environment that will offer a variety of financial services.

Also, as noted by Brau and Woller (2004), in as much as MFIs will set interest rates that will maximize shareholder value, setting high rates may hinder their ability to help the poor and reduce poverty. In addition the high interest rates may lead to poor financial performance as their borrowers may default on loans. On the other hand, however, owing to the fact that the principal amount inherent in micro credit are small, they do not enjoy any economies of scale, hence are not able to take care of the fixed costs. Meanwhile, operative and administrative costs are very high, which presupposes that if MFIs will be able to achieve financial and outreach performance, they may have to charge relatively high interest rates (Bhatt & Tang 2001).

Another important issue that border MFI operations is the choice of its target market. According to Woolcock (2001), MFIs often rely on social collateral in order to secure loans to groups if they are the target market. Gomez and Santer (2001) conducted an empirical study of 612 group and 52 individual borrowers and concluded that social collateral is very important in security group loans. They further reported that there is a positive correlation between presence of the group members and self-employment earnings. This means that group members with higher earnings are unlikely to default on the loans. All these point to the fact that MFIs need to effectively manage their operations as well as being able to choose a market with will help them attain outreach and financial performance.

MFIs play a significant role in the development of every economy, hence to be able to deal with challenges of growth and sustainability managers need to develop creative and innovative ideas in addition to understanding their management functions. There should also be the understanding of key management principles in order to be competitive. To improve performance, MFIs also need to examine their various markets and adopt the appropriate communication strategies for each market. This will help MFIs to enhance efficiency and productivity as well as minimize trade-offs they face in their service delivery (Churchill & Frankiewicz, 2006). Another important issue is the management of MFI risk. Risk is a fundamental and an integral part of a firm’s financial operations. However, some authors have observed that prudent risk management has not been taken seriously in the management of MFIs. Fernando (2008) observe that even though the MFIs have grown very much in the last decade, little is done to manage their risks as most of them were just interested in their growth prospects. He found that the basic credit risk management which helps most MFIs to achieve higher growth rates has been neglected. The initial risks that most MFIs were concerned about were mostly financial. However, the growth and expansion in the industry has added some risks. Deutsche Gesellschaftfur Technische Zusammenarberg (GTZ) cite three major risks in their publication viz; financial, operational and strategic. Churchill and Frankiewicz (2006) also unidentified four major risks categories as well as the different factors that determine these risks. The following table summarizes the type of risks.

The below table shows that MFI risks range from strategic through to operational risks. Their effective management helps to identify opportunities and minimize threats.
Table 1: Types of Risks Associated with Microfinance Business

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<th>Source</th>
<th>Type of Risk</th>
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<tr>
<td>GTZ (2000)</td>
<td>Financial</td>
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<td>Operational</td>
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<td>Strategic</td>
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<td></td>
<td>1. Credit risk is the risk to earnings or capital due to borrowers’ late and non-payment of loan obligations. It includes transaction and portfolio risks.</td>
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<td>2. Liquidity Risk is the risk that an MFI cannot meet its short-term financial obligations.</td>
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<td>3. Mark risks include interest rate risk – the risk of financial loss in change in interest rate; foreign exchange risk – risks of earnings from fluctuation is countries’ currency values; and investment portfolio risk – risk resulting from long-term investment rather than short-term investment decisions.</td>
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<td></td>
<td>1. Operational transaction risk. It includes HR and IT risks.</td>
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<td>2. Fraud risks – the risk of loss of earning as a result of deception by employee or client.</td>
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<td>3. Regulatory and Legal Compliance – risk of loss resulting from non-compliance with rules and regulations governing MFI operations.</td>
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<td>2. Commercial mission</td>
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<td>2. Inefficiency</td>
<td>2. Competition</td>
<td>2. Credit</td>
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<td>5. Reputation</td>
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<td>6. Political</td>
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6. Clients of MFIs

MFIs over the years have women as their target clients. The practice is based on the belief that women are more vulnerable but are able to invest in productive activities to improve their family welfare. Literature suggests that most micro finance credit facilities are targeted exclusively at women who are known to use funds more judiciously than men (Brau and Woller, 2004; Adjei, 2009). A further study conducted in Bangladesh by Pilt and Khandken (1998) revealed that women used loans more judiciously than men. Again a related study by Kevane and Wydick (2001) sought to debunk the argument that women perform better than their male counterparts. The study shows no significant difference between men and women in generating sales.

Another observation about MFI target market is the fact that most of them are typically low income earners who cannot access formal financial services and are self-employed arising from small scale entrepreneurial activities. In addition, a lot of the clients are from the rural areas who are mostly farmers or engage in other income generating activities such as retailing and food processing. In the more formal banking sector, access to finance is based on one’s income; thus, those with relatively high and stable income can enjoy their services. Since the rural poor and low income earners may not be able to meet the terms and conditions attached to accessing credit, they tend to direct their needs at microfinance institutions. The reason is that it is much easier and less expensive to access microcredit. Some authors however, argued that microfinance products are not appropriate for the extremely poor who do not have any stable income. The
observed that giving financial assistance to such groups will only mean further debts and poverty since they cannot repay the credit extended to them. This implies that the extremely poor only need safety programmes that can help them with their basic needs. The foregoing argument shows that most MFIs target women and low income earners with the belief that micro credit empowers women both socially and financially (Bhatt & Tang, 2001). Even though some authors have argued that the assistance provided by micro finance is problematic, most of the studies have shown that the benefits of micro credit far outweigh the costs.

7. Conclusions and Implications

Microfinance institutions have a long history of providing support and delivering credit to their clients. They have helped build many small businesses and also assisted the rural poor, hence, the prudent management of MFI activities is paramount. Thus, the structure of ownership and governance play a critical role in the sustainability of these MFIs. Microfinance institutions also assume risks ranging from strategic to operational risks. It is therefore prudent to take informed risks on promising clients whose businesses have growth potentials and financial sustainability. Again, even though the establishment of microfinance firms have increasingly been questioned, not only for the lack of poverty reduction and contribution to economic development, but also their ideologies, they have provided financial services to the poor in the form of micro credits or savings and thus helped managed their money differently. Thus, they need to price their range of financial products at rates that would help to mobilize more deposits as well as tap other important sources of capital. Even though the institutionist and welfarist paradigms hold different perspectives on the sustainability of microfinance, they emphasise the fact that financial and self-sufficiency do matter. The only difference is that the welfarists are more committed to achieving high social returns than their institutionist counterparts. Microfinance institutions, therefore, need to network and establish linkages with other firms within the sub-sector to be able to achieve the financial and self-sufficiency as well as meet the needs of their clients.

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