

UNIVERSITY OF CAPE COAST

**ASSESSMENT OF THE EFFECTS OF MICROFINANCE ON RURAL
COMMUNITIES IN AGONA DISTRICT IN THE CENTRAL REGION OF
GHANA**

DANIEL DUNCAN DADZIE

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GHANA

BY

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requirements for award of Master of Business Administration in Finance

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:..... Date:.....

Name: Daniel Duncan Dadzie

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature: Date:.....

Name: Dr. John Gatsi

ABSTRACT

This study assesses the impact of Microfinance on Rural communities in Agona District in the Central Region of Ghana. The specific objectives of the study were to assess customers' level of awareness of microfinance programmes in place, the effect of microfinance on poverty reduction, challenges faced by residents in acquiring loans from MFIs, constraints associated with the operation of MFIs and strategies to improve the services of MFIs. A survey was conducted and one hundred (100) customers and twenty-five (25) employees of selected microfinance institutions in Agona Districts in the Central Region of Ghana were selected using purposive sampling technique to collect primary data via questionnaires. The study revealed that the respondents did not understand the condition attached to the loan application process of the selected microfinance institutions. Again, the customers disagreed to microfinance programmes or institutions causing an increase in their personal assets aside providing them better and good standard of living thus, enhancing their quality of life. Once more, the study revealed that, difficulty in hiring and keeping well-trained staff willing to work in a rural community and high additional costs for ensuring security and managing liquidity were the most challenging issues facing MFIs in reaching the poor in rural areas. The study recommended the following to the management of the selected microfinance institutions; decrease in interest rates, increasing motivational incentives and encouraging formal and informal education.

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DEDICATION

I dedicate this project to my late father, Mr. Kofi Dadzie; and to my dear mother, Maame Ama Kwakwawa; and finally, to my dear wife my kids.

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LIST OF ACRONYMS

MFIs	Micro Finance Institutions
GSS	Ghana Statistical Service
IFAD	International Fund For Agricultural Development
GLSS	Ghana Living Standards Survey
PHC	Population And Housing Census
AEDA	Agona East District Assembly
AWMA	Agona West Municipality Assembly

CHAPTER ONE

INTRODUCTION

Background to the Study

It has been realised that poor people all over the world are many a time excluded from the formal financial system ranging from partial exclusion in developed countries to full or nearly full exclusion in Less Developed Countries (Jegade, Kehinde, & Akinlabi, 2011). In this regard, different approaches of development have been created by international development agencies, policymakers, and nongovernmental organizations over the past two decades, to reduce poverty especially in developing countries. One of these strategies, which has become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Frimpong & Nguerenomo, 2014). In other words, in absence of the access to formal financial services, the poor in both developed and less developed countries have come up with a wide range of informal community based financial arrangements to meet their financial needs and this is referred to as microfinance (Irobi, 2008), with the main aim of providing sustainable facilities to the poor, low income earners, self-employed and household-based businesses to facilitate income generation and the reduction of poverty (Berg, 2010).

In the view of Jegede et al. (2011), microfinance refers to the lending of small amount of capital to poor entrepreneurs in creating a mechanism to alleviate poverty by providing the poor and destitute with resources that are

available to the rich on a small scale. Anyanwu (2004) and Adjei (2011) reiterate that, microfinance is not just the provision of capital to the poor, but the combat of poverty at the individual and institutional level, to deliver financial services to the poor in both urban and rural settings, who are continuously rejected by the formal banking sector. The services of micro financial institutions according to Ledgerwood (1999), is not limited to savings and credit or loans but also include other financial services such as insurance and payment services, to increase investment among the poor hence, empower them economically. Studies by Brownstein, Fleck, Shetty, Sorensen and Vadgana (2007) have shown that micro-finance plays three broad roles in development and these are to help very poor households meet basic needs and protect against risks, improvements in household economic welfare by empowering women and supporting their economic participation to promote gender equity.

Frimpong and Nguerenomo (2014), define poverty as a condition or state of livelihood best determined by the accounts of those who experience it. Thus, it is the circumstances of deficiency or lack of something physical or intangible and resulting in a status of inferiority or low self-esteem, manifesting itself in various forms and collectively having a negative impact on the individual. Hossain and Knight (2008) asserts the significant manifestations of poverty include material deprivation, lack of assets, isolation, vulnerability, lack of decision-making power, constrained freedom of choice and opportunity in matters of production, consumption, employment and socio-political representation. He added that poverty breeds apathy and lethargy amongst the poor and prevents them from realizing their potential.

Nonetheless, poverty according to Frimpong and Nguerenomo (2014) has always been a part of the world, especially in developing countries and even in developed countries where it is assumed that everyone is well-to-do. A greater number of the world's poor are found in the rural areas hence, depend on agricultural and other natural resource based activities to a large extent. Statistics have shown that about 1.2 billion people worldwide are in dollar poverty, consuming less than a dollar a day (Akram, 2011). However, out of the 1.2 billion dollar poor, 75 percent are employed. Therefore in the rural areas, poverty reduction programmes to be able to succeed, must be focused on the rural poor (Akram, 2011), making microfinance promotion paramount in poverty reduction endeavors.

It is very important to note that, from the IFAD report (2011), Ghana was still among poor countries in the world with an annual per capita income of US \$400 with a population of 24 million. The report further indicated that the poor have not had the opportunity to use credit and savings to boost their capacity for bearing risk or to become entrepreneurs (IFAD Report, 2011). Moreover, according to Frimpong and Nguerenomo (2014), majority of the populations who live off agriculture are also poor whose main source of income is agriculture. This is because the main enterprise of the poor has been the family farm, which has not developed alongside the other sectors of the economy. This means that poverty is more than just a lack of income (Frimpong & Nguerenomo, 2014). Adjei (2011) therefore highlights in his survey the short comings of focusing solely on increased income as a measure of the impact of microfinance on poverty. His findings revealed that there was a significant difference between increasing income and reducing poverty

adding that, by increasing the income of the poor, micro finance institutions are not necessarily reducing poverty since this depends to a great extent on what the poor do with this money (Adjei, 2011). This is because, often times, the money is gambled away or spent on alcohol hence, focusing solely on increasing incomes is not enough. However, sustaining a specified level of well-being of the poor by offering a variety of financial services tailored to their needs to improve their net wealth and income security will be very helpful (Frimpong & Nguerenomo, 2014). In this light, the study sets out to assess the effect of microfinance on poverty reduction in rural communities in Agona District.

Statement of the Problem

Poverty in Ghana is predominantly a rural phenomenon. The importance of the rural communities and the extent of poverty remains very important to the economy of Ghana as well. Based on the 2010 Population and Housing Census (PHC) projections, more than 2.2 million Ghanaians cannot afford to feed themselves with 2,900 calories per adult equivalent of food per day, even if they were to spend all their expenditures on food. Although the absolute number living in extreme poverty has reduced over time, it is still quite high given the fact that Ghana is considered to be a lower middle income country. This has created the fulcrum for the emergence of microfinance interventions especially in rural communities.

Rural poverty is estimated to contribute approximately 85% to national poverty (Hemmer, 1992). More than one-half of the population living in the rural central region of Ghana continues to be extremely poor. Considering the upper poverty line of GH¢1,314, the proportion of the population defined as

poor is 24.2 percent in 2012/2013, with a poverty gap index of 7.8 percent (in other words, the mean income of the poor falls below the poverty line by 7.8%). These percentages indicate that about 6.4 million people in Ghana are poor, as estimated by Ghana Statistical Service for the GLSS VI. Ghana Statistical Service for the GLSS VI also indicates that, extreme poverty line in rural areas decline from 89.6% in 2005/2006 to 88.8% in 2012/2013 the poverty gap of 15.4% and 13.1% with the difference of 2.3% which indicates that the poverty level in the country, especially rural communities is still very high.

There was the Economic Recovery Program (ERP) introduced in 1983 and backed by specific programs such as the Program of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) and the GhanaVision 2020. These programs were, however, unsuccessful (Hossain & Knight, 2008). Further on, the Ghana Poverty Reduction Strategy (GPRS I) (IFAD Report, 2011) was formulated to enable Ghana to benefit from a significant measure of debt relief under the Highly Indebted Poor Country (HIPC) and to position the country in an improved macroeconomic environment to address critical issues of poverty on an emergency basis.

Moreover, by solving or reducing poverty in rural communities, Ghana has had many different models that aimed at poverty reduction. Subsidies were given to small scale farmers and artisans and all these programmes have failed to reduce poverty. In the face of the failure, most of the development economists started thinking of new approaches and strategies to poverty reduction. It was at this point that the idea of microfinance was developed in Ghana. This was after there had been claims of the miraculous power of

microfinance in reducing poverty in the Asia and Latin America (Nanor, 2008).

Microfinance institutions (MFIs) provide credit to the poor without collateral as compared to traditional commercial banks whose credit provision is based on collaterals. In this regard, Adjei (2011) observed that for most micro and small entrepreneurs in Ghana, the lack of access to financial services is a critical constraint to the expansion of viable micro enterprises. In a survey conducted by Aryeetey (as cited in Frimpong & Nguerenomo, 2014), only six percent of the study sample had access to formal financial services with majority of them (94%) denied.

The emergence of microfinance has been identified as pivotal to economic development in Ghana and other parts of the world at large and this has called for so many Microfinance Institutions (MFIs) in the country. As at November 2015, there were 468 licenced microfinance institutions (Hossain & Knight, 2008) and 143 Rural and Community Banks (RCBs) (most of them render microfinance services) in Ghana (Connaway & Powell 2010). Some are banking institutions, NGOs, Christian Organizations and Non-banking Financial Institutions. They are everywhere in the country. However, this emergence of many MFIs in Ghana has given some hope for the poor, but mind boggling questions are: what is the degree of the impact of these micro-loans on the livelihood of the poor? Have those who contracted these loans rather not been burdened with the problem of repayment and thereby becoming poorer?

At the heart of this dissertation lies the question on how much clients actually benefit from the numerous microfinance in the district. Also

considering the alarming height of poverty in the Agona district and the increasing number of microfinance in the community, has microfinance really impacted positively or significantly reduce poverty in the community? As long as the effect of microfinance programme has remained a mixed result in the Agona District, it is a subject worthy of a serious examination. Against this background the study sets out to assess the effects of microfinance on rural communities with specific reference to Agona District.

Objectives of the Study

The main objective of the study is to assess the effect of microfinance on poverty reduction among the rural residents of Agona District. The study sought to:

1. assess customers' knowledge level of microfinance programmes in place in rural communities in Agona district.
2. determine the effect of microfinance on poverty reduction in rural communities in Agona District.
3. ascertain the challenges faced by residents in acquiring loans from Microfinance Institutions (MFIs).
4. identify constraints associated with the operation of microfinance institutions (MFIs) in rural communities in Agona District.
5. suggest ways that microfinance can use to improve their services.

Research Questions

The study sought to address the following questions.

1. What are customers' levels of awareness of microfinance programmes in place in rural communities in Agona district?

2. What is the effect of microfinance on poverty reduction in rural communities in Agona District?
3. What are the challenges faced by the residents in acquiring loans from Microfinance Institutions?
4. What are the constraints associated with the operation of microfinance institutions (MFIs) in rural communities in Agona District?
5. What alternatives can microfinance institutions use to improve their services?

Significance of the Study

The purpose of the study is to assess the effect of microfinance on poverty reduction in rural communities in Agona District. The researcher believes that this study is very important and would go a long way to notifying all rural communities in Ghana, especially those in the Agona District, on the impacts of microfinance on poverty reduction in rural communities.

It is important to note that the output of this study contributes to knowledge and literature in the subject area under investigation. To the institution of the researcher, the study seeks to add to existing store of knowledge and literature, as it serves as the basis for subsequent studies in related fields. Thus, the findings will add to studies that have been done, so that people in all rural areas in Ghana can also appreciate the problem

The final report will be a useful source of reference to other future researchers, academia, policy makers and microfinance institutions. The researcher is of the view that the study will be useful to policy makers like the Bank of Ghana and Commercial banks who mostly finance these microfinance

institutions, since it will serve as an input for policy formulation to regulate them on the effect of microfinance on poverty reduction in rural communities.

Scope of the Study

The scope of the study comprised the impact of microfinance institutions in the Agona District of Ghana. It focused on finding out the knowledge level of microfinance programmes by the people of Agona district, the impacts/effect of microfinance on poverty reduction in rural communities in Agona District, the challenges faced by the residents in acquiring loans from Microfinance Institutions, as well as constraints associated with the operation of microfinance institutions (MFIs) in rural communities in Agona District, in reducing poverty.

Again, it was not possible to examine all the 468 microfinance institutions across the country (Ghana Statistical Service, 2006). Therefore, the study comprised only four selected microfinance institutions in the Agona District.

Limitations

Certain weaknesses of the study could influence the results or its generalization, over which the researcher had little or no control. In the first place, limited financial resources on the part of the researcher which did not allow him to cover greater part of the population. Also, although microfinance institutions in Ghana operate in several communities in central region, the researcher was not able to carry out the research in a limited geographical area like Agona. Again, the results were also affected by time constraint due to the limited time within which the researcher was expected to submit the work.

To reduce the effects of the above stated limitations, the researcher diligently ensured that there is a fair representation of the population. This was done by making sure the entire list of the target population was accurate by carefully selecting the population sample for the study.

Organisation of the Study

The study is divided into five chapters. The chapters are inter-related and built upon each other. Chapter One which is the introduction deals with the background information on the research topic, statement of the problem, research objectives and questions, significance of the study, delimitation and limitations and the organization of the study. Chapter Two covered the Literature review. It presents a review of relevant literature on the subject under study. Chapter Three dealt with the Research Methodology. This included the research design, population of the study and sample size, sampling techniques, instrumentation, mode of data collection, data analysis and presentation of results and ethical issues. Chapter Four focused on Data Analysis of the data obtained from customers. Chapter Five presented the summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The chapter reviews literature with regards to the impact of microfinance on rural communities. The Literature review will be in three parts; the theoretical review, conceptual review, and the empirical review. Other sections will review definitions of terms in the field of microfinance. The chapter will end with the conclusion of some specific empirical studies about the impact of MFI in rural communities and finally provide a summary of the reviews.

Theoretical Review

Several theories have been promulgated to explain the impact of microfinance on individuals, SME's and rural communities. This study discusses two theories (stakeholder theory and mission drifting theory of microfinance) that seek to explain how stakeholders (beneficiaries) are affected in their quest to provide social obligation, the need for microfinance lending and reasons why rural banks deviate from lending to the poor.

The stakeholder theory

The stakeholder theory was proposed based on the argument that, apart from stakeholders, there are numerous agents with an interest in the movements and deliberations of companies. Stakeholders are groups and the beneficiaries of such groups are affected by and their rights are either

respected or violated by corporate actions (Samantha, 2012). Stakeholders include creditors, customers, employees, suppliers and the communities at large. The Stakeholder theory asserts that businesses have a social obligation that requires them to take into consideration the interests of all parties affected by their actions. Management should not solely consider its shareholders when making decisions pertaining to the organization, but also any individual who is harmed by the business decisions. The stakeholder theory exhibits some views which go contrary with the classical theory, the stakeholder theory holds the view that “the aim of any organization is or should be the prosperous of the organization and its key stakeholders (Freeman, 2004).

MFI’s have a social responsibility to perform in the interests of all parties affected by their actions including members from the Agona District who serve as customers. According to the stakeholder theory therefore, the Management of the selected MFI’s should not solely think about its shareholders and how to maximize profit when making decisions pertaining to the organization, but also any individual (customer) who is harmed by the business decisions. With this, MFI’s have obligation to take the interest of members of the Agona district at heart and find out how to meet their needs, demands, expectations, as well as how to improve their living standards and reduce poverty among them by educating them on innovative business strategies and helping members to acquire easy loans without stress.

Some of the setbacks with the stakeholder theory lie in the difficulty of considering stakeholders who are believed to be voiceless such as the ecosystem and potential victims or future generations which are believed to be absent. The difficulty of considering the ecosystem as a stakeholder is tangible

due to the fact that the majority of the definitions of stakeholders typically treat them as individuals or groups, thereby excluding the ecosystem as a matter of definition because it is not a community or human group as are, for example, consumers, employees and the like (Buchholz & Rosenthal 2004). Philips and Reichart (2000) contend that only humans can be considered as organizational stakeholders and criticize attempts to give status to ecosystem stakeholder.

Mission drifting theory of microfinance

The theory of mission drifting suggests that the foremost mission of microfinance institutions is to provide financial services which are affordable to majority of the poor populations around the globe. Provision of affordable financial services therefore entails provision of loans at low interest rates and laying more emphasis on poor clients. But some microfinance institutions find themselves shifting their focus from the poor clients who are more risky to lend to and start lending to corporate or rich clients in their bid to enhance financial performance and avoid high levels of non-performing amount overdue. When this happens, microfinance institutions are said to be drifting from their initial mission of providing affordable financial performance is slowly making microfinance institutions to deviate from their mission of lending money to the low income bracket in the society (Winters, 2010).

In line with this study, MFI's need to provide financial assistance to poor people from the Agona District by providing them with loans at low interest rates and laying emphasis on poor clients by helping clients to improve upon their living standards through an increase in the individual's utility and wealth, increase in savings, as well as increase in consumption.

However, this is not the case as some MFI's find themselves shifting their focus from the poor clients because they consider it risky to lend to the poor people and are rather lending to corporate or rich clients in their bid to enhance to financial assistance and maximize profit. This implies that, MFI's are drifting away from their original motive of providing inexpensive financial assistance to poor clients making MFI's to digress from their mission of lending money to the income bracket in the society.

The theory further implies that the emergence of microfinance institutions represents an option to going to informal moneylenders and presents a way to eliminate the borrowing constraint in developing countries. In countries where the financial system is not well developed and functioning, microfinance can lead to an increase in the individual's utility and wealth by enabling him or her to increase consumption and saving. It allows the individual to dissave and save which makes it possible for each individual to smooth consumption and follow his or her optimal lifetime consumption (Todaro & Smith, 2003).

From the above theories, the conceptual framework is captured in Figure 1. The dependent and independent variables have been clearly identified and relationship explained. Considering the objective of the study, which is study is to assess the effect of microfinance on poverty reduction among the rural residents of Agona District, independent variable is Credit provision and dependent variable is the Poverty alleviation. Thus through the Microfinance providing financial services which are affordable to majority of the poor populations in Agona District in the Central Region of Ghana, the level of poverty will be reduced.

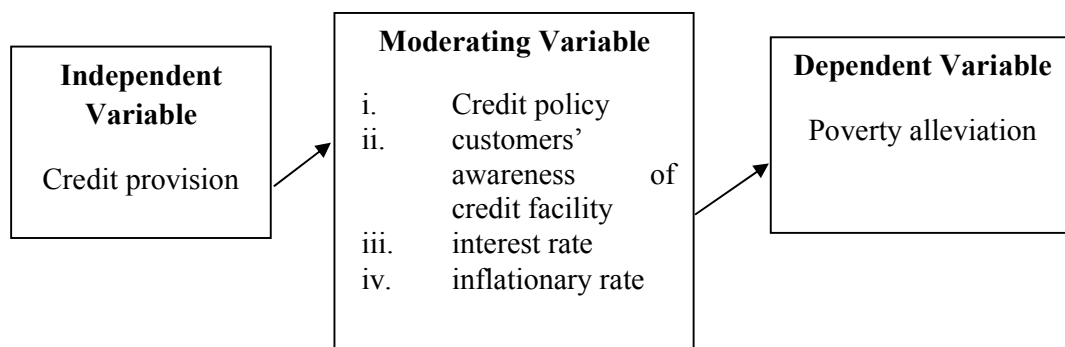


Figure. 1. Relationship between Credit provision and Poverty alleviation

Source: Researcher's own construct

Conceptual Review

Micro Finance Institutions (MFIs)

A microfinance institution (MFI) is an organization, engaged in extending micro credit loans and other financial services to poor borrowers for income generating and self-employment activities. In literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc). Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

Poverty alleviation

The English word poverty came from the Latin word "pauper" which means poor. The concept does not avail itself to a singular definition as it has been contested by several scholars. In the view of House (2011) the

phenomenon is “complex”. The difficulty in getting a definition for poverty was admitted by the Ghana Statistical Service in their 2006 report on poverty. The Ghana Statistical Service (GSS) conceded that, poverty is an elusive concept and an element of subjectivity is unavoidable in aiming at a working definition (GSS, 2015). Poverty, according to Hemmer (1992) and Asenso (1993) exists when one or more persons fail to attain a level of well-being that is deemed to constitute a reasonable minimum by the standards of society.

House (2011) opines that there are forms of poverty that go much deeper to affect the mind, body and soul. To him, man can be poor in respect of all facets of life namely political, spiritual, intellectual, physical and economic. This means that we can have economic poverty as well as intellectual, political or even spiritual poverty. Poverty in other respects could be income or non-income and that is where the interest of this research lies. Using the World Bank measure there could be income poverty when one survives on less than one dollar a day.

The concept of poverty according to Sarshar (2010) can be stated in three different ways. The first and most effective definition of poverty is that Poverty is a situation in which there is dearth of essential facilities, resulting from inadequate income'. There is a socially accepted minimum level of living in every society. Those who live below this minimum level are said to live in poverty. The second definition of poverty is based on basic or fundamental needs, i.e. a failure to meet the basic human needs; or to remain deprived from such needs is a state of poverty. The basic human needs include not only food, clothing and dwelling, but also health and education. The third way of defining poverty is in respect of lack of opportunities.

Microfinance and Microcredit

The terms microcredit and microfinance are often used interchangeably and because both terms are often confused, it is important to highlight the difference between them. Sinha (1998) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)” (p.2). It can therefore be concluded that microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

The structures of microfinance institutions

The study identified five main structures of microfinance institutions, namely Rotating savings and credit associations (ROSCAs), Village Banking, Microfinance Integrated with Social Services (MFISS), Credit with Education and Credit unions.

Rotating Savings and Credit Associations (ROSCAs)

Rotating savings and credit associations (ROSCAs) and group lending schemes are the most common microfinance alternatives for poor individuals. In ROSCAs, around 40 to 50 persons form a group and each group member saves a fixed amount of money. The savings work as an interest-free loan, which is distributed on a rotating basis to each member by a designate leader. Group lending schemes function in the way that possible loan takers form a group and apply for a credit on a jointly basis.

After receiving the loan they distribute it among the group members. Each individual is liable for the repayment. When one loan period has ended with successfully repaid loans, each individual in the group is granted a larger loan in the following loan period. This increase in credit amount induces the repayment of the loans. The group lending makes it possible for poor individuals to get access to commercial credits and to reduce the risk. (Todaro & Smith, 2003)

Village Banking Structure

Village Banking is the type of group based lending most common today. The Foundation for International Community Assistance (FINCA) in Latin America developed village banking in the mid 1980's. The method emerged as a tool for fighting poverty and it targets women clients. The founder of FINCA, John Hatch, states that: "Our focus on women was the result of a growing conviction that the fastest way to affect the welfare of children was through aid to their mothers." (FINCA, 2006) In the places where MFI's provide village banking (often in areas where no formal financial institution is present), individuals who want to receive a loan for income-generating activities may together form a village bank. Typically, the village bank consists of women formed in groups with between 20 to 40 members (Dunford, 2001).

The main idea with the village banking is to give the responsibility to the clients. Participation is a key word and the entire management of the loan (distribution, collection of repayment, repayment, book keeping etc.) is handled by the group members. There is initially a period of training when the groups learn to manage their own village bank and its rules (Dunford, 2001).

Microfinance Integrated with Social Services (MFISS)

Microfinance integrated with social services is a type of structure where MFI's combine microfinance services with social services such as education and health, is another alternative. This form emerged since it is often not enough to have access to financial services such as loans and savings for the very poor. There are principally three forms of how to integrate financial and social services (Dunford, 2001).

The first form is the Linked service which is a specialized MFI which offers financial services to its clients and cooperate with one or more independent organisations that offer social services at the same time to the same clients. The next form is the Parallel service. The same organisation/MFI offers financial and social services at the same time to the same clients through two or more different programmes. Lastly there is the Unified service. One organisation/MFI offers both financial services and social services at the same time to the same clients, through one unified programme. The same personnel handle the two services.

Credit with Education Structure

In the Credit with Education programme there is a field agent, usually from the local area, who is responsible for promoting and recruiting new village groups, providing the new groups with initial training and attending each village bank's group meeting in order to assist with its financial matters. At each meeting the field agent also give a learning session (usually 20 to 30 minutes). In the learning session the field agent introduces a topic with relevance to issues in the group members lives. The field agent is responsible

for helping the group members understand why the topic is relevant. The idea is to give basic information about practical actions the group members can undertake in order to improve their lives. Each Credit with Education programme has its own mix of educational topics; examples are health, child nutrition, micro business, management etc (Dunford, 2001).

Credit with Education is a Freedom from Hunger worldwide strategy to bring self-help solutions to the fight against poverty. It was first launched in West Africa in 1988. It is the combination of microcredit loans to very poor women with vital health and business education.

The loans transform women into entrepreneurs who run home-based businesses, such as making food products or crafts to sell. No longer forced to scrape together whatever money they can earn, the programme helps the women to generate a regular income, along with new sense of accomplishment and self-esteem. But the increasing income is only the beginning of this self-help process (Vetrivel & Kumar, 2010). “The programme also provides vital education to women at their weekly meeting. As women gather to pay back their loans, they learn about health, nutrition, family planning and sound business practices.

Credit Unions

Credit unions are the organizations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit

services, besides the informal financial market. Because credit unions have social as well as commercial objectives, they may have a key role to play in offering pro-poor financial services. It has been observed that some women have not benefited much from the credit unions because the level of savings required is too high (Ayuub, 2013).

Credit unions have achieved financial self-sufficiency within the last few decades. According to one statistics from the World Council of Credit Unions (WOCCU), by the end of the 1980s there were about 17,000 credit unions in 67 developing countries around the world. These unions maintain nearly 9 million members and 60% of these members are from Africa and the Caribbean Islands. These credit unions handled approximately US\$2 billion in deposits and share capital. It is estimated that they are disbursing US\$300 million in small loans to about 1.5 million small businesses.

Individual-based lending versus Group-based lending

Another aspect of Microfinance structure is the difference in Individual-Based lending and Group-Based lending. MFIs have also developed models that can provide financial services to individual borrowers. These institutions successfully combine mechanisms from the formal and informal lending sectors. They use different mechanisms, which help them reduce adverse selection and moral hazard problems, such as frequent and close contact with individual clients, to provide credit products tailor-made to specific needs.

Individual-based lending “draws on traditional banking practices and involves a standard bilateral relationship between the bank and customer”. It is

mostly predominant in East Asia and the Pacific. This method appears as the most vulnerable one to weak enforcement policies and information asymmetries Zeynep (2006). Unlike MFIs, there are very few conventional financial institutions which provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labor-intensive nature of the credits and hence the lack of profitability of small-credits.

Furthermore, increasing the investments on the workforce increase the profits as the lender cannot rely on the client for information. In general, individual-based lending is practiced for larger loans and therefore with less severe poverty levels. Furthermore, this method has proven to help MFIs become financially self-sufficient. Zeynep (2006) found that labor costs are associated with higher profitability with this method of lending, as borrowers would receive larger loans once they are identified as reliable customers.

Most of the loans given out to the poor in developing countries are given in groups. Group-based lending, as the term already indicates, requires individuals to organize themselves into groups in order to gain access to financial services from a programme. We witness different programmes and projects to be involved in providing loans to these people. Sometimes, governments own and run these programmes; in other cases international institutions, local and foreign NGOs are involved in reaching poor borrowers. Normally, group-based lending works as follows. Loans are made to individuals, but all members of the group are held responsible for the loan repayment (joint liability principle). In some programmes loans are given

strictly for a certain period of time (usually a year), while in other programmes the members are allowed to decide the loan terms themselves.

Repayments are made on a weekly or monthly basis; this is done at group meetings or directly to the branches of the microfinance institution. Nowadays, worldwide many programmes use group-based lending to forward loans to the poor.

Dunford (2001) also said that microfinance provides credit for investment in small-scale self-employment activities chosen by the poor themselves. He further stated that these loans seem to increase income and savings for the poor. But also the taking, investing and repaying of loans seems to empower the poor through a personal transformation from a feeling of "I cannot" to one of "I can." I can do something about my poverty.

Again Dunford (2001) said that in theory at least, this self-financing feature allows for massive expansion of microfinance to reach tens if not hundreds of millions of underserved people. For most populations, this strategy seems to have the broadest utility and the least cost per beneficiary. If you had to choose just one development intervention, you would accomplish the most by helping people gain access to financial services.

Microfinance Products and Services

The services provided by microfinance institutions can be categorized into four broad different categories:

a) **Financial intermediation** or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies.

b) **Social intermediation** is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation.

c) **Enterprise development** services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services.

d) **Social services** or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Legerwrod, 1999)

Overview of Microfinance in Ghana

Before the emergence of formal Banking in Ghana, many poor people, especially those in rural communities relied heavily on informal banking services and semi – formal savings and loans schemes (Egyir, 2010). Egyir further asserts that the mission of the informal microcredit organizations or microfinance services in Ghana was to provide social and economic support for the less advantaged, especially rural communities. In some rural communities in Ghana, the microcredit concept was known as “susu” where weekly meetings were organized for a contribution into a common fund. The funds were released to its members uniformly until all members of the group

are served. Likewise a participant could withdraw out of turn when there was emergency.

Credit unions were however introduced in 1955 when the then Father Peter Poreku Dery, a Catholic priest founded a cooperative credit union in Jirapa in the Upper Region, now Upper West Region, of Ghana. It followed the German concept developed in 1846. The objective of the credit union was to encourage thrift and savings among member farmers, traders, processors and non-agricultural workers for productive ventures to improve the socio-economic lives of the people. A credit union enables the poorest in a community to save and access loans for income generating activities (Egyir, 2010). Cooperative Credit Unions were expected to take over some of the lending being done by moneylenders. A number of government financed loans schemes were instituted in the late 1950s with the same aim as well as the general aim of making more finance available for local development. Then in the 60s special banks, National Investment Bank and Agricultural Development Bank, were established. Commercial banks, notably the Ghana Commercial Bank, also operated rural credit schemes. But rather than giving credit to rural producers, these banks were draining the rural areas of savings, which were invested in the commercial and housing sectors in the urban areas (Asiama, Osei & Egyir, 2010).

It had become clear that existing formal financial institutions, formed with the goal of replacing the perceived harmful informal operators, especially moneylenders, were not meeting the financial need of the rural poor. Hence, rural banks arose by 1970s to fill the gap. The intermediating credit to the rural sector of the economy upon which Ghana's agricultural economy

depends, contributing 38% of GDP had also been failing to achieve their objectives. Therefore the first rural bank in Ghana was founded in July 1976 at Agona Nyakrom in the Central region of Ghana. According to Asiamah and Osei (2008) a rural bank is a community owned and managed bank that is mandated to operate within a catchment area of 25 kilometres from its headquarters. The objective of the rural bank is to mobilizing rural savings, offering credit and other banking services to rural producers being an instrument of rural (local) development; and contributing towards national development.

Globally, modern microfinance dates from the mid-1970s. Professor Muhammad Yunus of Bangladesh is widely regarded as the leading innovator. He had the idea of making loans available to the very poor, especially women. He started the Grameen Bank Project in 1976, and transformed it into a bank in 1983. According to the bank, in 2005 it had nearly 6 million borrowers 96% of them women and almost 2,000 branches in some 64,000 villages in Bangladesh. The repayment rate of loans was 95 percent as of 2008, and the bank had earned a profit every year since its establishment 30years ago (Mohammed & Mohammed, 2007). Given the success of the Grameen Bank approach, it has become a model for most microfinance institutions worldwide. Microfinance institutions in Ghana that employ the Grameen Bank model had over 1.5 million borrowers in 2000 (Egyir, 2010).

Various categories of Microfinance Institutions in Ghana

Rural and Community Banks, Savings & Loans companies, Credit Unions and Financial Non-Governmental Organizations are the key stakeholders of Microfinance institutions in Ghana.

Rural Banks

Rural Banks are unit banks which are owned and managed by residents in a community. They are registered under the Company's Code and are licensed by the Bank of Ghana to engage in the business of banking. Being unit banks, they are not allowed to open branches but are permitted to open agencies within their catchments areas for the purpose of mobilizing deposits. The basic functions of Rural Banks are the mobilization of savings and the extension of credit to deserving customers in their areas of operation. It is also the belief of the Central Bank that through their financial intermediation functions, Rural Banks will act as catalysts for economic development in rural Ghana.

Credit Unions

Credit unions are registered by the Department of Co-operatives as cooperative thrift societies in Ghana and are permitted to accept deposits and offer loans to their members only. It is worth noting that the first Credit Union in Africa was established in the Northern part of Ghana in 1955 by the Canadian Catholic missionaries. Credit unions have an established association commonly referred to as CUA. The association serves as a self-regulatory apex body for its affiliates.

Savings and Loans Companies

Savings and loans companies (S&Ls) are deposit-taking financial institutions regulated by the Bank of Ghana under the Non-Bank Financial Institution (NBFI) Law 1993 (PNDCL 328), with a minimum capital requirement much lower than that of the universal banks but above that for rural and community banks.

The advent of the NBFIL Law gave rise to a rapid growth and transformation of some Financial Non-Governmental Organisations (FNGOs) into savings and loans companies operating in urban and peri-urban areas in the country. They serve mostly the economic active informal unbanked populations and offer tailored products to suit this category of the population. They are restricted to a limited range of financial services compared to universal banks, mostly mobilizing deposit, provision of credit to low income clients and SMEs, money transfers and financial literacy. They utilize microfinance methodologies to serve most of their clients in the peri-urban areas with an average loan size higher than the other category of microfinance institutions.

Financial Non-Governmental Organizations

Financial NGOs (FNGOs) are incorporated as companies limited by guarantee under the Companies Code. They are considered to be the semi-formal system, in that they are formally registered, but are not licensed by the Bank of Ghana. FNGOs are mostly mission-driven, and are especially active in poor communities. Their poverty reduction focus leads most of them to provide multiple services including microcredit, which remains their main business, to poor clients though mostly on a limited scale. They are not allowed to take deposits from clients and hence have to use external funds for microcredit. These funds are mostly from donors, social investors and government programmes. Some of them however operate the susu scheme which allows individuals to save small amounts on a daily or weekly basis.

Poverty Reduction and Microfinance in Ghana

According to Sowa (2000), the poor have the following characteristics; material deprivation (lack of income, resources and assets); Physical weakness (malnutrition, sickness, disability, lack of strength); isolation (illiteracy, lack of access to education and resources, peripheral locations, marginalization and discrimination); vulnerability to contingencies which increase poverty (for example, war, climate changes, seasonal fluctuations, disability); Powerlessness (the inability to avoid poverty or change the situation). Sowa further contend that poverty levels in Accra for instance increased substantially between 1987 and 1992 (GLSS, 1995). She attributes such issue to the fact that most of the adjustment policies had a direct impact on the urban public sector. The retrenchment policies as well as the pegging of increases in the Wage bill to only 5 percent of Gross Domestic Product (GDP) reduced the income of the urban public sector worker. However, other urban areas as well as rural-costal and rural-forest localities had reductions in poverty levels (GLSS, 1995). The GLSS (1995) further revealed that the rural-savanna was the poorest zone in the country with more than half its population classified as poor and more than a third being very poor-in 1992. In spite of the increases in poverty levels in Accra the nation's capital, it still remains the locality with the least poor, although, it is gradually declining to the national average (Ghana Living Standard Surveys, 1992).

Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities enable the poor to smoothen their consumption, manage their risks better, build their assets gradually and develop their micro

enterprises. Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty. It allows poor people to protect, diversify and increase their sources of income, the essential path out of poverty and hunger (Chawla, 2013).

Ramji (2009) also studied the implementation of financial inclusion drive and utilization of banking services by the households in Gulbarga district in Karnataka. The survey was administered to 999 respondents who were below poverty line (BPL) households. It was found that 36 per cent households were without access to any formal or semi- formal saving instrument. The awareness level was very low amongst the respondents as only 10 per cent of them were aware of zero minimum balance bank account opening. Most of them opened the bank accounts only to have access to any kind of Government assistance.

A study by Women World Banking (2003) revealed that between 1999 to 2001 with four MFIs located in four different countries in order to measure the customer satisfaction level with regards to micro financing services. About 78 per cent customers from Uganda and Bangladesh reported being satisfied with the turn-around time for the first loan whereas 97 per cent respondents in Uganda were satisfied with the services received from the credit staff. The biggest reason for the dissatisfaction among micro finance clients was found to be the insufficient loan size. People preferred individual loans instead of group mechanism. Moreover, they wanted a broad range of services to be included in the spree of micro financing services ranging from consumption to business loans. Thus, the studies showed that the financial awareness among the microfinance clients is very low that hinders the idea of financial

inclusion. According to the study although the satisfaction level is good enough, emphasis should be laid on spreading financial awareness among people.

Impact of Microfinance on Poverty Reduction

Simanowitz (2001) argue that impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFIs so that they can improve their services and the impact of their projects. Poverty is more than just a lack of income. Okpara (2010) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is significant difference between increasing income and reducing poverty (Wright, 2009). He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends on what the poor do with this money, oftentimes it is gambled away or spent on alcohol (Obamuyi, 2009). So focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to sustain a specified level of well-being by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved (Wrightfinanci, 1999).

It is commonly asserted that MFIs are not reaching the poorest in society. However, despite some commentators' skepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations. According to Littlefield and Rosenberg (2004) various studies document increases in income and assets, and decreases in vulnerability of microfinance clients. They refer to projects in India,

Indonesia, Zimbabwe, Bangladesh and Uganda which all shows very positive impacts of microfinance in reducing poverty. For instance, a report on a share project in India showed that three-quarters of clients saw significant improvements in their economic well-being and that half of the clients graduated out of poverty (Hossain, 2012). Contrary to Hashmi's view Dichter (1999) provides a dilemma to the impact of MFIs. He states that while microfinance is a tool for poverty reduction their records are generally well below expectation. He does however, conceded that some positive impacts do take place.

Mahmood (2011) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that there is clear evidence that the impact of a loan on a borrowers income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the middle and upper poor (Shirazi & Khan, 2009).). However, they also show that when MFIs such as the Grameen Bank provided credit to very poor households, those households were able to raise their incomes and their assets (Hulme & Mosley, 1996). Hulme and Mosley (1996) reiterate that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves. Johnson and Rogaly (1997) also refer to examples whereby savings and credit schemes were able to meet the needs of the very poor. They stated that microfinance specialists are beginning to view

improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries overall vulnerability.

Impacts of Microfinance on Livelihoods

The impact of MF on livelihoods is focused in terms of the changes to livelihoods assets and the use of livelihood assets to cope with vulnerability. The provision of MF can assist the poor find the means to protect their livelihoods against shocks and to build up and diversify their livelihood activities (Johnson & Rogaly, 1997). Chowdhury et al (2004) argued that if MF is to fulfill its social objectives of bringing financial services to the poor, it is important to know the extent to which its wider impacts contribute to poverty reduction. Social networks play an important part in helping clients escape from poverty. Access to social networks provides clients with a defence against having to sell physical and human assets and so protect household assets.

Using the quantitative methodology, a study by Robinson (2001) on 16 MFIs pointed out that having access to MF services have led to an enhancement in the quality of life of clients, had increased their self-confidence, and had helped them diversify their livelihood security strategies and thereby increase their income (Robinson, 2001). At the household level, Health care and education are two key areas of non-financial impact of MF. Wright (2009) opined that the impact of MF interventions on health and education, nutritional indicators seem to improve where MFIs are actively working. MF interventions have been shown to have a positive impact on the education of clients' children because one of the first things that poor people

do with new income from micro-enterprise activities are to invest in their children's education (Littlefield et al, 2013).

More so, MF also contributes to building up physical assets. According to Marconi & Mosley (2014), clients reflected significant increases in ownership of livelihood assets such as livestock, equipment and land. They stated that this should not be surprising as poorer clients are more risk averse and less likely to invest in fixed capital and so are more vulnerable to having to sell productive assets in the event of a shock (Marconi & Mosley, 2014). MF creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (Otero, 2009).

Challenges in Accessing Loans from MFIs

According to Irobi (2008), many obstacles impede rural households and entrepreneurs in access financial services. Accordingly, both service users and financial institutions offering services in rural areas are confronted with a broad array of challenges: Firstly, the report indicated that high transaction costs in rural areas is a contributing factor for the rural poor to gain access to loans. The provision of financial services in rural areas is associated with high unit costs both for institutions and for their clients. This is due to the fact that infrastructure for transport, communication and information technology is less developed in rural areas, as well as to the remoteness of these areas. Clients frequently have to travel long distances to deposit savings or repay a loan. As they usually travel on foot, this can cost them an entire working day. Rural financial institutions face additional costs for ensuring security and managing

liquidity. High unit costs are usually passed on to the clients, with the result that users in rural areas frequently pay higher interest rates than people in urban areas.

Moreover, credit risk is higher in rural areas both for borrowers and for rural financial institutions. The revenues of rural households, whose incomes mostly depend on seasonal agricultural and livestock production, are volatile due to fluctuating weather conditions and pests or diseases. In addition, price fluctuations are high in the agricultural sector. Generally, rural households depend on one or two sources of income only, increasing the risk of credit default. Many households either entirely lack collateral or do not have a legal title to their house or land. Financial institutions thus have no means of securing their credits against defaulting. Defaulting clients run high risks as well and financial institutions end up typically imposing punitive interest rates for delayed payments and might even confiscate assets of defaulting clients.

Higher rates of illiteracy in developing countries, particularly in rural contribute to the challenges. Poorly educated people face an additional challenge in accessing financial services as it is difficult for them to analyze credit risks and the profitability of a loan or savings scheme, to provide all documents and information (such as a business plan) required to apply for a loan, and to understand conditions and contracts. Some institutions fail to communicate interest rates and commissions in a transparent manner, and small prints in contracts can contain additional costs for borrowers. On the other hand, financial institutions that want to expand into rural areas experience difficulties in finding, hiring and keeping well-trained staff that is

willing to work in a rural region. Lack of experienced staff, in turn, leads to poor institutional capacity among rural financial institutions.

Women in rural communities are constrained by the norms, beliefs, customs and values and as such cannot easily acquire loans. MFI cannot empower women directly but can help them through training and awareness, rising to challenge the existing norms, cultures and values that place them at a disadvantage in relation to men and to help them have greater control over resources and their lives Kabeer (as cited in Mosedale, 2013). Littlefield (2013) stated that access to MFI can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. Hulme & Mosley (2006) also made this point when they referred to the naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women However, Chowdhury and Bhuiya (2014) found that violence against women actually increased when women joined the program, as not all men were ready to accept the change in power relations, and so resorted to violence to express their anger.

Challenges Faced by Microfinance Institutions in Alleviating Poverty

Markowski (2012) states that Consultative Group to Assist the Poor (CGAP) estimates that only about 5% of MFIs worldwide are financially sustainable although the IMF (2005) puts the figure at only 1%. To achieve financial sustainability according to Havers (2006), MFI must cover the cost of funds, operating costs, loan write-offs and inflation with the income it receives from fees and interest. According to the IMF (2005) the MFIs that have become self-sustainable tend to be larger and more efficient. They also

tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (IMF, 2005). In order to achieve such sustainability, while at the same time reaching those most in need, microfinance programmes need to be managed in a rigorous and professional manner, subsidies must be removed, and tight credit control procedures and follow-up on defaulters needs to be in place (Havers, 1996). There is no doubt that sustainability is also very important from clients' perspectives, as they place a high value on continued access to credit, and if they feel that the MFI will not survive it reduces their incentive to repay loans (Von Pischke, 1999).

Another challenge and criticism facing MFIs is that, they end up working with the moderately poor, and marginalizing the poorest of the poor. Simanowitz (2001) highlights a number of factors leading to the marginalization of the poorest, which lessens the impact microfinance is having on poverty; self-exclusion, exclusion by other members, exclusion by MFI staff and exclusion by design. Markowski (2002) and Rogaly (1996) argue that MFIs in their project designs are failing to meet the needs of the very poor and destitute, who do have a demand for microfinance services, especially for savings (Littlefield et. al, 2013). They are ignored, yet an objective of the Microcredit Summit is to reach 175 million poor people by 2015 meanwhile MFIs target for meeting this objective remains a subject to be debated in currently.

MFIs do not have the depth of outreach that is needed to meet the demands of the rural poor. Serving the rural poor in the developing world

involves a major financial commitment, as it is expensive to run rural microfinance projects. Claessens (2005) states that high transaction costs, small volumes and the high costs of expanding outreach, make it unprofitable to serve the rural poor. It is for this reason that commercial banks are positioned in areas of high population density. However, if MFIs are to meet their social mission of serving the poor then financial services need to reach the rural poor.

As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centres while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFIs are to fill this void they must reach the rural poor. However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield & Rosenberg, 2004).

The Concept of Poverty

The English word poverty came from the Latin word “pauper” which means poor. The concept does not avail itself to a singular definition as it has been contested by several scholars. In the view of House (2011) the phenomenon is “complex”. The difficulty in getting a definition for poverty was admitted by the Ghana Statistical Service in their 2015 report on poverty. The Ghana Statistical Service (GSS) conceded that, poverty is an elusive

concept and an element of subjectivity is unavoidable in aiming at a working definition (GSS, 2015). Poverty, according to Hemmer (1992) and Asenso (1993) exists when one or more persons fail to attain a level of well-being that is deemed to constitute a reasonable minimum by the standards of society.

House (2011) opines that, there are forms of poverty that go much deeper to affect the mind, body and soul. To him, man can be poor in respect of all facets of life namely political, spiritual, intellectual, physical and economic. This means that we can have economic poverty as well as intellectual, political or even spiritual poverty. Poverty in other respects could be income or non-income and that is where the interest of this research lies. Using the World Bank measure there could be income poverty when one survives on less than one dollar a day.

A recent concept of poverty according to Sarshar (2010) can be stated in three different ways. The first and most effective definition of poverty is that Poverty is a situation in which there is dearth of essential facilities, resulting from inadequate income'. There is a socially accepted minimum level of living in every society. Those who live below this minimum level are said to live in poverty. The second definition of poverty is based on basic or fundamental needs, i.e. a failure to meet the basic human needs; or to remain deprived from such needs is a state of poverty. The basic human needs include not only food, clothing and dwelling, but also health and education. The third way of defining poverty is in respect of lack of opportunities.

Poverty Situation in Ghana

According to Sowa (2000), the poor have the following characteristics; material deprivation (lack of income, resources and assets); Physical weakness

(malnutrition, sickness, disability, lack of strength); isolation (illiteracy, lack of access to education and resources, peripheral locations, marginalization and discrimination); vulnerability to contingencies which increase poverty (for example, war, climate changes, seasonal fluctuations, disability); Powerlessness (the inability to avoid poverty or change the situation). Sowa further contend that poverty levels in Accra for instance increased substantially between 1987 and 1992 (GLSS, 1995). She attributes such issue to the fact that most of the adjustment policies had a direct impact on the urban public sector. The retrenchment policies as well as the pegging of increases in the Wage bill to only 5 percent of Gross Domestic Product (GDP) reduced the income of the urban public sector worker. However, other urban areas as well as rural-costal and rural-forest localities had reductions in poverty levels (GLSS, 1995). The GLSS (1995) further revealed that the rural-savanna was the poorest zone in the country with more than half its population classified as poor and more than a third being very poor-in 1992. In spite of the increases in poverty levels in Accra the nation's capital, it still remains the locality with the least poor, although, it is gradually declining to the national average (Ghana Living Standard Surveys, 1992).

Financial Awareness and Customers Perceptions about Microfinance

One of the major reasons for preferring informal sources of finance instead of the formal ones found to have been the lack of awareness about the micro financing services. In a study, Pandey (2008) examined the awareness level of micro financing that came out to be 52 per cent whereas the satisfaction level was around 60 per cent. The financial awareness among those who were using micro financing services was also found to be very low.

The majority of clients were having knowledge of their loan amounts, loan duration and the weekly installment of repayment. They also understood the joint liability of loans and felt obligated to repay on behalf of other who were unable to repay. As far as the rate or amount of interest is concerned, they had a very little knowledge of it. However, they valued MFIs for their cheapest services. It is interesting to note that the respondents were able to select the cheapest loan among the two offered to them (Tiwari, Khandelwal, Ramji 2008).

The Impact of Microfinance on Poverty Reduction

Simanowitz (2001) argue that impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFIs so that they can improve their services and the impact of their projects. Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is significant difference between increasing income and reducing poverty (Wright, 1999). He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends on what the poor do with this money, oftentimes it is gambled away or spent on alcohol (Wright, 1999). So focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to sustain a specified level of well-being (Wright, 1999) by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

It is commonly asserted that MFIs are not reaching the poorest in society. However, despite some commentators' skepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations. According to Littlefield and Rosenberg (2004) various studies document increases in income and assets, and decreases in vulnerability of microfinance clients. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all shows very positive impacts of microfinance in reducing poverty. For instance, a report on a share project in India showed that three-quarters of clients saw significant improvements in their economic well-being and that half of the clients graduated out of poverty (Murdoch & Hashemi, 2003). Contrary to Hashmi's view Dichter (1999) provides a dilemma to the impact of MFIs. He states that while microfinance is a tool for poverty reduction their records are generally well below expectation. He does however, conceded that some positive impacts do take place.

Hulme and Mosley (1996) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that there is clear evidence that the impact of a loan on a borrowers income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the middle and upper poor (Hulme & Mosley, 1996). However, they also show that when MFIs such as the Grameen Bank provided credit to very poor households, those households were able to raise their incomes and their assets (Hulme & Mosley, 1996). Hulme and Mosley (1996)

reiterate that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves. Johnson and Rogaly (1997) also refer to examples whereby savings and credit schemes were able to meet the needs of the very poor. They stated that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries overall vulnerability.

Clients of Microfinance

Microfinance is at times referred to as 'Women's finance'. Research has shown that women clients of microfinance institutions are more inclined than the men to invest in their family's health and education. Poor women who gain access to microfinance when no other financial services are available to them enhance their status in their communities and in their families (Winters, 2010). The CGAP (2007) reported that the typical microfinance clients are low-income persons who do not have access to formal financial institutions. Microfinance clients are typically self-employed and are often household-based entrepreneurs.

Constraints of rural Folks in Accessing Loans from MFIs

According to Irobi (2008) many obstacles still make it difficult for rural households and entrepreneurs to access financial services. Accordingly, both service users and financial institutions offering services in rural areas are confronted with a broad array of challenges: Firstly, the report indicated that high transaction costs in rural areas is a contributing factor for the rural poor to

gain access to loans. The provision of financial services in rural areas is associated with high unit costs both for institutions and for their clients. This is due to the fact that infrastructure for transport, communication and information technology is less developed in rural areas, as well as to the remoteness of these areas. Clients frequently have to travel long distances to deposit savings or repay a loan. As they usually travel on foot, this can cost them an entire working day. Rural financial institutions face additional costs for ensuring security and managing liquidity. High unit costs are usually passed on to the clients, with the result that users in rural areas frequently pay higher interest rates than people in urban areas.

Moreover, credit risk is higher in rural areas both for borrowers and for rural financial institutions. The revenues of rural households, whose incomes mostly depend on seasonal agricultural and livestock production, are volatile due to fluctuating weather conditions and pests or diseases. In addition, price fluctuations are high in the agricultural sector. Generally, rural households depend on one or two sources of income only, increasing the risk of credit default. Many households either entirely lack collateral or do not have a legal title to their house or land. Financial institutions thus have no means of securing their credits against defaulting. Defaulting clients run high risks as well and financial institutions end up typically imposing punitive interest rates for delayed payments and might even confiscate assets of defaulting clients. Higher rates of illiteracy in developing countries, particularly in rural contribute to the challenges. Poorly educated people face an additional challenge in accessing financial services as it is difficult for them to analyze credit risks and the profitability of a loan or savings scheme, to provide all

documents and information (such as a business plan) required to apply for a loan, and to understand conditions and contracts. Some institutions fail to communicate interest rates and commissions in a transparent manner, and small prints in contracts can contain additional costs for borrowers. On the other hand, financial institutions that want to expand into rural areas experience difficulties in finding, hiring and keeping well-trained staff that is willing to work in a rural region. Lack of experienced staff, in turn, leads to poor institutional capacity among rural financial institutions.

Women in rural communities are constrained by the norms, beliefs, customs and values and as such cannot easily acquire loans. MFI cannot empower women directly but can help them through training and awareness, rising to challenge the existing norms, cultures and values that place them at a disadvantage in relation to men and to help them have greater control over resources and their lives Kabeer, quoted in (Mosedale, 2013). Littlefield and Rosenberg (2004) stated that access to MFI can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. Hulme & Mosley (1996) also made this point when they referred to the naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women However, Chowdhury & Bhuiya (2004) found that violence against women actually increased when women joined the program, as not all men were ready to accept the change in power relations, and so resorted to violence to express their anger.

Challenges Faced by Microfinance Institutions in Reaching the Poor

Markowski (2002) states that Consultative Group to Assist the Poor (CGAP) estimates that only about 5% of MFIs worldwide are financially sustainable although the IMF (2005) puts the figure at only 1%. To achieve financial sustainability according to Havers (1996), MFI must cover the cost of funds, operating costs, loan write-offs and inflation with the income it receives from fees and interest. According to the IMF (2005) the MFIs that have become self-sustainable tend to be larger and more efficient. They also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (IMF, 2005). In order to achieve such sustainability, while at the same time reaching those most in need, microfinance programmes need to be managed in a rigorous and professional manner, subsidies must be removed, and tight credit control procedures and follow-up on defaulters needs to be in place (Havers, 1996). There is no doubt that sustainability is also very important from clients' perspectives, as they place a high value on continued access to credit, and if they feel that the MFI will not survive it reduces their incentive to repay loans (Von Pischke, 1999).

Another challenge and criticism facing MFIs is that, they end up working with the moderately poor, and marginalising the poorest of the poor. Simanowitz (2001) highlights a number of factors leading to the marginalisation of the poorest, which lessens the impact microfinance is having on poverty; self-exclusion, exclusion by other members, exclusion by MFI staff and exclusion by design. Markowski (2002) and Rogaly (1996)

argue that MFIs in their project designs are failing to meet the needs of the very poor and destitute, who do have a demand for microfinance services, especially for savings (Littlefield et al, 2013). They are ignored, yet an objective of the Microcredit Summit is to reach 175 million poor people by 2015 meanwhile MFIs target for meeting this objective remains a subject to be debated in currently.

MFIs do not have the depth of outreach that is needed to meet the demands of the rural poor. Serving the rural poor in the developing world involves a major financial commitment, as it is expensive to run rural microfinance projects. Claessens (2005) states that high transaction costs, small volumes and the high costs of expanding outreach, make it unprofitable to serve the rural poor. It is for this reason that commercial banks are positioned in areas of high population density. However, if MFIs are to meet their social mission of serving the poor then financial services need to reach the rural poor.

As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centres while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFIs are to fill this void they must reach the rural poor. However, according to most studies, microfinance is only reaching a

small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004).

Empirical Review

The Micro-finance Experience in Ethiopia

A study conducted on the Dedebit Credit and Saving Institution (DECSI); found that DECSI's program has had a positive impact on the livelihoods of its clients. Compared to non-clients, clients experienced greater improvements over a period that span from for five years. That is from the year 2000 to 2004. Client's situation improved in terms of income, consumption and assets. The study found that the improvement in economic condition of the clients is a necessary condition for DECSI's program that could lead to social and political empowerment for the marginalized groups. Finally the study concluded that economic empowerment leads to social and political empowerment. On the other hand, this study also indicated the negative effects of DECSI's program. A considerable number of credit-financed ventures fail with a possible effect on indebtedness and asset depletion of clients. In addition, a high level of school dropout rates of client's children was registered (Dunford, 2001).

Other studies were also conducted on OMO and SIDAMA microfinance institutions using women clients in Awassa town. According to the study, majority of the clients were involved in the making and trading of food, and food-related products. Diversification in their business were missed out in their activity, reasons being that production of food and related items of trade involved less risk compared to other activities. What was key to note in this scenario is that, within the study it was found that about 92% of the

women were not aware that savings were more important than credit to build their future. The researchers' explanation of this finding is that MFIs savings policy is only to cover the risk situation and rather create an element of thrift among the clients. Nevertheless, the study argued that there is a good influence of micro credit on the urban women working groups in terms of income and self-employment generation. Furthermore, it also reflected in many cases in business improvements, decision making process and asset formation at low levels. (Ledgerwood, 1999)

Microfinance Experience in Bangladesh

Bangladesh has been the pioneer in the field of microfinance movement since its inception since 1980s. Today Bangladesh is the home to the most extensive microfinance operations in the world. Starting from the resource of few pennies and with the clients in double digit counts, microfinance movement gained such a momentum that it has not only made great strides in Bangladesh in delivering financial services to the poor , but also has become a pioneer in the developing world. There are many MFIs working in Bangladesh and in the other parts of world, which have differences in their organizational structure and working methodology, but they all work on the common theory, philosophy and goal. Many studies and surveys have been carried out by different agencies regarding the working of MFIs and their impact on the poor people in Bangladesh. The agencies like Bangladesh Institute of Development Studies and World Bank have found strong evidence that functioning of MFIs have helped the people in meeting their daily needs and at the same time building their assets. It has been stated in The World Bank Economic Review that microfinance has not only helped people to

develop in their material capital but also in the human capital, by better access to health care and education system, and general awareness among the people about their rights and duties towards society.

The Case of Pakistan

In Pakistan majority of the population are living in rural areas and Poverty is a crucial phenomenon which has destroyed not only the economy but also the nation. To this effect, Mahmood (2011) find out that poverty has become a crucial phenomenon in Pakistan and Unavailability of the credit is a basic reason of poverty. Poor people don't have financial resources to run a small business, due to which they are unable to earn even the basic necessities of life. Microcredit schemes play a vital role to cut back from the vicious circle of poverty. It provides an opportunity to poor people to get education, health care, better food, and high standard of living. Havers (2006) conclude that the purpose of microfinance is to give credit to very poor for economic and social poverty alleviation and the well-being of the overall society. Microfinance programs provide loans to the small businessmen and the people who have house hold activities and their incomes are less than the minimum wages or they get occasional wages. Microfinance is a financial support to the poor so that they can run their own small business to earn livelihood.

The case of Nigeria

Recent studies in Nigeria have shown evidence of positive impact as it relates to first six out of seven Millennium Goals (Adamu, 2007; Irobi, 2008; Wriqth, 2000; Adamu, 2007), all subscribed to the believe that microfinance is an effective and powerful tool for poverty reduction. For example, Adjei (2011) focus on the ability of microfinance to reach the poor and affirmed that

microfinance has served people below and above the poverty line. Also, Hossain (2012), in his study on “Credit for the Alleviation of Rural Poverty in Bangladesh found that Grameen members who are poor and landless have average household of forty three percent higher than marginal landowners.

The results of an empirical evidence in Nigeria indicates that the poorest can benefits from microfinance from both an economic and socio well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the Micro-financial institutions (Adamu, 2007; Robinson, 2001; Dahiru and Zubair,2008). For instance, Khandker (1998), in several related studies using statistical method on assessment of impact of microfinance among three Bangladesi programs found that every additional takas lend to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in an updated study using panel data in Bangladesh, Khandker (2005), found out that each additional 100 taka of credit to women increase total annual household expenditures by more than 20 taka. These studies showed overwhelming benefit of increase in income and reduction of vulnerability.

On the other hand, some authors have challenged the positive effects of microfinance on poverty alleviation. For instance, Hulme and Mosley (1996) while acknowledging the role of microfinance can have in helping to reduce poverty, concluded from their research on microfinance that most contemporary schemes are less effective than they might be. They stated that microfinance is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off by microfinance. Also, Adamu (2007) observed that microfinance institutions in Nigeria have grown

phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging microenterprises. He was skeptic about the fact that the number of beneficiaries of microfinance institutions is an insignificant proportion of the people in need of microfinance services. It has been estimated that formal microfinance institutions only service less than one million clients, in a country where over 70% of the country's population live below the poverty line (Dahiru and Zubair, 2008). The results also suggested that micro-financing is unsuccessful at reaching the group most prone to destitution, the vulnerable poor.

However, Irobi (2008) revealed the major challenges of microfinance in Nigeria that could impede their operations. This included: communication gaps and Inadequate awareness; insufficient support from governments; inadequate donor funding; less attention on financial sustainability of MFIs; lack of adequate loan or equity capital to increase loan-able funds; high turnover of MFI staff; limited support for human and institutional capacity building; illegal government and NGO operations that spoil the market; and lack of standardize reporting and performance monitoring system for MFIs.

Chapter Summary

The chapter reviewed literature from three perspectives; theoretical, conceptual and empirical review. With the theoretical review, it was established that, MFI's have a social responsibility to perform that requires them to take into consideration the interests of all parties/clients affected by their actions (the stakeholder theory) was discussed. The mission drifting theory of microfinance also emphasised that, MFI's need to provide financial assistance to poor people by providing them with loans at low interest rates

and laying emphasis on poor clients by helping clients to improve upon their living standards. The conceptual review also looked at related concepts such as MFI's, microfinance and microcredit, microfinance products and services, overview of microfinance in Ghana, various categories of microfinance institutions in Ghana, poverty situations in Ghana, challenges faced by microfinance institutions in reaching the poor as well as the constraints of rural folks in accessing loans from MFIs. The chapter concluded with an empirical review by presenting recent studies on cases of microfinance institutions in Ethiopia, Bangladesh, Pakistan, and Nigeria indicating that, the poorest can benefit from microfinance from both an economic and socio well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the Micro-financial institution

CHAPTER THREE

RESEARCH METHODS

Introduction

Methodology as stated in Polit and Beck (2014) is the process of obtaining, organizing and analyzing data. This section is divided into sub-sections which discuss the study design, research approach, population of the study, sample and sampling technique, data collection instrument, sources of data, data collection procedure, validity and reliability, pre-testing, data analysis and interpretation of results and ethical considerations.

Study Area

Agona West District

The Agona West Municipality is situated in the eastern corner of the Central Region within latitudes $5^{\circ} 30'$ and $5^{\circ} 50'N$ and between longitudes $0^{\circ} 35'$ and $0^{\circ} 55'W$. It has a total land area of 356.16 square kilometers and it is home to about 5.1 percent of the region's population. It is bordered to the north by Agona East, to the south by Gomoa East and to the northwest and west by Asikuma-Odoben-Brakwa and Ajumako-Enyan-Essiam District. The Municipal capital, Swedru, is at a nodal point of roads radiating to the rich cocoa growing areas of the Central Region.

The population of Agona West Municipality, according to the 2010 Population and Housing Census, is 115,358 representing 5.2 percent of the region's total population. Males constitute 46.9 percent and females represent 53.1 percent. The Municipality is predominantly urban with a little over three quarters of the population (76.6%) residing in urban localities.

The Municipality has a sex ratio of 88.5. This Municipality depicts extremely expansive youthful population with 25.7 percent in the age group of 0-9 years, depicting a broad base population pyramid which tapers off with a small number (1-2 %) in the 60 plus age groups. The total age dependency ratio for the Municipality is 79.1 with the total dependency ratio for rural higher (95.3) than that of urban (74.7).



Figure 2. Map of Agona West Municipality

Source: Ghana Statistical Service, GIS (2015)

Of the population 15 years and older 66.0 percent are self-employed without employees, 8.2 percent are contributing family workers, 1.3 percent are casual workers and 0.5 percent are domestic employees (house helps). Overall, men constitute the highest proportion in each employment category

except the self-employed without employee(s) and contributing family workers. The private informal sector is the largest employer in the Municipality, employing 88.1 percent of the population followed by the public sector with 6.7 percent.

The Agona West Municipality has a lot of economic potentials in the form of both natural and man-made. The most spectacular is the presence of markets in most major towns to promote trade and commerce. The Municipality produces large quantities of cassava, maize, plantain, cocoyam and vegetables. Cocoa, palm oil and coffee are also produced. (Population & Housing Census, 2010).

Agona East District

Agona East District is situated within latitudes $5^{\circ}30''$ and $5^{\circ}50''$ N and longitudes $0^{\circ}35''$ and $0^{\circ}55''$ W. It is bounded to the south by the Agona West Municipality and the Gomoa East District Assembly, to the north by the Birim South District and to the northeast by the West Akim District, both in the eastern region. The eastern part of the district is bounded by the Awutu Senya District and to the West by Asikuma-Odoben-Brakwa and Ajumako-Enyan-Essiam District.

Generally, the District lies in the wet semi-equatorial climatic zone. It has two main crop growing seasons; a bio-modal pattern of rainfall with the maximum occurring in May/June and the minor occurring in September/October. The annual rainfall figure lies within the range of 1000 mm - 1400 mm. The dry season starts in December and ends in March with the highest mean monthly temperature of 33.8°C occurring between March and April and the lowest of about 29.4°C in August. The District capital is Agona Nsaba,

which is approximately 35 kilometres North of Winneba and 20 kilometres from Agona Swedru



Figure. 3. The map of Agona East district

Source: Ghana Statistical Service, GIS (2015)

The Agona East District (AEDA) was carved out of the Agona District now the Agona West Municipality in 2008. It is one of the 20 District in the Central Region. It is situated in the eastern corner of the Central Region. The District has one constituency and five Town/Area Councils. These are: Nsaba,

Duakwa, Asafo, Kwanyako and Mankrong Area Councils. The people in the District are predominantly farmers.

The Agona East District Assembly (AEDA) was established through Legislative Instrument (LI) 1921. It has a total land area of 539.7km². The indigenous people of the District are the 'Agonas'. Over the years, they have co-existed with other prominent minority migrants such as Gomoas, Ewes, Effutus, Ashantis, Fantis, Kwahus, Atakpames, Kotokolis and several other ethnic groupings from northern Ghana.

Ethnic groups like Kwahus and Gomoas are mainly cocoa farmers. Despite the diversity of different ethnic groups, the District has a strong social integration. The groups inter-marry and participate in shared cropping arrangements under the existing land tenure systems, especially the 'Abunu' and 'Abusa' which are commonly practiced. This has promoted solid social bonds and economic ties between migrants, tenants and their indigenous landlords. It also makes it easier for tenants to acquire land for farming.

The population of Agona East District, according to the 2010 Population and Housing Census, is 85,920 representing 3.9 percent of the region's total population. Males constitute 47.8 percent and females represent 52.2 percent. Less than half (43.3%) of the district's population live in urban localities and more than half (56.7%) live in rural localities. The district has a sex ratio of 91.4. The population of the district is youthful (41.1%) depicting a broad base population pyramid which tapers off with a small number of elderly persons (6.1%). The dependency ratio in the urban areas is 85.4 while in the rural areas it is 92.6. The child dependency ratio in the district is 78.0.

The old age dependency ratio is 11.4 in the district (12.3 for urban localities and 10.7 for rural localities).

Agriculture is the main economic activity of the people of Agona East District. The major crops grown are food crops (cassava, plantain, maize) and cash crops (cocoa, oil palm). The second most important economic activity after agriculture throughout the District is trading and this sector employs about 33.0 percent of the labour force. The sector is least developed and dominated by petty traders and kiosk owners.

The commercial activities in the district have been enhanced by the prevalence of periodic markets. Notable among these market towns include the Mankrong Junction, Asafo, Mensakrom and Duakwa. Although these market centres are poorly developed, they constitute the major sources of revenue to the District Assembly. Only two of the market facilities have stalls and stores while trading activities are largely conducted under trees, in front of houses and in temporal structures constructed with crude materials (which mostly are provided by the traders themselves).

Industrial activities are largely on small scale and characterized by over reliance on indigenous knowledge and resources. Family ownership and use of labour intensive technology are some of the basic features of this sector. Some of the small-scale industrial activities engaged in by the people include woodcarving, pottery, carpentry and cassava processing, palm oil and palm kernel extraction, 'akpeteshie' distillery, sachet water production, tailoring, batik tie-dye making, food processing, artisans, etc. The District has many economic opportunities. The most important is the presence of periodic market centres in the major towns that promote trade and commerce. The district

produces large quantities of cassava, maize, plantain, cocoyam and vegetables. Cocoa, oil palm, coffee, cola and teak are also cultivated.

Granite for the production of quarry stone for all types of construction abounds in the district. Mining of sand occurs in several parts of the district, particularly at Asafo. Palm kernel oil is processed into local soap in several large communities. Distillation of local gin is predominant in the Duakwa and Nsaba areas. With the creation of the Agona East District, Hotels, Guesthouses, rest spots and restaurants are springing up. The district is moderately served by some major trunk roads and some health facilities are being upgraded into hospitals (Population & Housing Census, 2010).

Research Design

For the purpose of this study, the descriptive design was adopted. This was adopted because, a descriptive study is one in which information is collected without changing the environment thus, nothing is manipulated. Besides, it helped demonstrate the association or relationship between the variables employed in the study thus, microfinance institutions and poverty reduction. Moreover, the design was chosen because it offered the opportunity to assess and describe the impact of microfinance institutions on the rural communities in the Agona District of Ghana as they are; by finding out the knowledge level of microfinance programmes by the people of Agona District; investigating the challenges faced by members of the Agona community in assessing loans from microfinance institutions; assessing the constraints facing the MFI's in reaching the poor as well as the analyzing the alternatives microfinance can use to improve its services as it is without the manipulation of variable(s). Amedahe and Gyimah (2005) maintain that in descriptive

research, accurate description of activities, objects, processes and persons is objective. However, the design has its own weakness as there is no way to statistically analyse results because there is no manipulation of variables as in experimental designs (Shuttleworth, 2008). However, the impact of microfinance institutions on the residents in the rural communities is a process, and in order to have an objective analysis of the situation on the ground, the study adopted the descriptive survey, which is a type of descriptive research design.

Population

The population of the study comprised all staff of the selected microfinance institutions and residents in the Agona District. There are over thirty-five (35) microfinance institutions and 201,278 residents in the Agona District (115,358 and 85920 for West and East respectively) (Population & Housing Census, 2010). The staff of the microfinance institutions were selected because of the fact that, they are in a better position to give detailed information about the constraints they face in reaching the poor in the Agona District. The researcher included the residents in the Agona District in order to find out their level of awareness of microfinance programmes, the relationship between microfinance and poverty reduction, the challenges they face in assessing loans from microfinance institutions as well as ways that microfinance can use to improve its services. Agona was used in this study because of proximity reasons and the fact that, this district is among the District with high amount of microfinance institutions in the central region which would increase the representativeness of the sample units involved in the study for onwards generalizations.

Sampling Procedure

It has been confirmed by some scholars in Social Science that for a sample to be representative in a study, it must be a good proportion of the population (Welman, Kruger, & Mitchell, 2005). A sample size is basically the subset of actual number of individuals of the population. A sample size helps considerably to define the accuracy of the research results. There are 201,278 residents in the Agona District and out of this, 100 residents who are customers of selected three MFIs for the study were chosen for the study. Also, twenty (25) MFIs staff members in the selected MFIs in the Agona District were selected for the study.

The purposive sampling was used to select the 100 respondents. This was done based on respondents' knowledge of the effect of microfinance on poverty reduction in rural communities. This was because they were inhabitants of the selected study area and customers of the selected microfinance institutions for the study hence, were in the best position to answer the research questions in that regard. This sampling technique is based on the judgment of the researcher regarding the characteristics of the sample. The sampling technique relies on the judgment of the researcher when it comes to selecting the units (e.g., people, cases/organizations, events, pieces of data) that are to be studied (Cresswell, 2013).

Data Collection Instrument

There were two sets of questionnaires, one set for the residents, then the other for the staff members of the microfinance institutions in the Agona District. The questionnaire for the residents was structured into four sections consisting of 25 items. Section A-Background characteristics of the

respondents consisted of eight (8) items. Section B-Level of awareness of microfinance programmes consisted of eight (8) items. Section C-Challenges faced by the members of Agona community in assessing loans from microfinance institutions included eight (8) items, and section D-Suggestions that microfinance can use to improve its services was open ended. The questionnaire for the staff members was structured into three sections consisting of 17 items. Section A- biography of the respondents consisted of six (6) items. Section B- Constraints faced by microfinance institutions in reaching the poor consisted of eight (8) items. Section C- Suggestions that microfinance can use to improve its services was open ended.

Sources of Data

Data was obtained from both primary and secondary sources for the research. The primary data were gathered using questionnaires which were administered to customers of the selected microfinance institutions in rural communities in Agona District.

The secondary sources of data for the study included research reports, annual reports, textbooks, statistical data and journal articles. These sources provided the researcher a sense of direction and information on what is done in relation to the effect of microfinance on poverty reduction in rural communities in Agona District.

Data Collection Procedure

The collection of data was conducted and made possible as a result of an official letter from the institution of the researcher, introducing him as a student. The researcher then introduced himself in a friendly way to respondents and used that as the basis to further build rapport with them

before explaining the purpose of the study. This was intended to gain the trust and co-operation of respondents. As indicated earlier, data was collected using a semi-structured questionnaire. Moreover, respondents were identified and questionnaires were self-administered to them at the visit to the selected microfinance institutions in rural communities in Agona District. The process lasted for four weeks and where explanations and clarifications were needed, the researcher was quick to assist.

Validity and Reliability

Research quality is normally determined by the validity and reliability of the methodology and data. Patton (2012) identifies that validity and reliability are the two main factors that any research should be concerned about while designing a study, analyzing results and judging the quality of data.

Validity

The researcher ensured the validity of the items in the questionnaire by pre-testing it on customers with the same characteristics as the respondents used for the study. The tested questionnaire helped the researcher fine tune the items in the question to measure what it is intended. Additionally, the researcher avoided double barrelled items which distract respondents from providing the appropriate response to the items. As much as possible the researcher avoided the use of leading questions which also distract the instrument from measuring what is intended (Ghuri & Grønhaug, 2015).

Data collection began with a pilot test during which the questionnaires were pre-tested. The pre-testing exercise was used to decide on the suitability

of the data collection instruments. The pilot /pre-test study was conducted using 5 randomly selected customers of the selected microfinance institutions in rural communities in Agona District, to determine whether questions in the questionnaires were clear enough to elicit the appropriate responses. It consisted of both close and open ended questions. This enabled the researcher to make necessary changes in the questionnaire. It also enabled the researcher know the right period for administering the questionnaires to customers.

Reliability

In order to make the study as reliable as possible, data collected was documented carefully and the same observational schedule was used throughout the study, giving the study a prerequisite to perform observations that are coherent, which could easily be done by other researchers if they used the same instrument. Also, a standardized questionnaire with Likert scale was used for manipulation-checks. This provides other researchers a very good opportunity to perform this study and end up with the same results. Furthermore, both observations and manipulation check questions are performed in high numbers with the aim of making the result of the findings reliable.

Ethical Considerations

In order to ensure credibility, dependability, transferability and conformability, the study sought ethical approval from the institution of the researcher. Moreover, in the data collection process, informed consent of the respondents was sought and respondents were guaranteed beforehand the privacy of the information they provided. Participants were fully informed of

the nature of the research both verbally and in writing. Here, an informed consent form was given to respondents as advocated by Twumasi (2001), which was filled and collected by the researcher. The form and accompanying information sheet included all the information that the subject needed in order to make an informed decision to participate in the research or not. The researcher also ensured that participation in the study was completely voluntary. Thus no one was forced to participate; Creswell (2009) states that the rights of any individual involved in a research study are: confidentiality, anonymity, voluntary participation, not to be harmed, dignity and self-respect. In this regard, several measures were employed to ensure confidentiality and anonymity of respondents. By this, the names of respondents were not taken and all filled questionnaires were kept in a secure location with restricted access. The researcher accordingly, acknowledged all scholarly work and data consulted including books, journals, theses, and field data.

Data Processing and Analysis

The analytical tool for this study is the Statistical Package for Social Science (SPSS) version 19.0. It is a common computer program that performs statistical calculations and is widely used in data analysis (Gravetter & Forzano, 2014). After the field work, the quantitative data was coded, entered into SPSS package, cleaned and verified. The findings of this study were presented using tables, mean, standard deviation and correlation matrix analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter provides analysis of the study based on the data collected from questionnaires administered by the researcher to customers and staff of selected microfinance institutions in Agona District in the Central Region of Ghana, in assessing the impact of Microfinance on Rural communities.

Profile of Respondents

To understand the position of customers and staff on the impact of Microfinance on Rural communities, some biographical information was needed. This section presents some information on the gender, age and educational level, employment status, name of institution and length of service or transacting with the selected microfinance institutions of both customers and staff. These variables are cardinal in knowing the calibre of people who conducted the assessment.

Gender of Respondents

The researcher gathered information on the gender of respondents. Table 1 shows the results obtained.

Table 1: *Gender of Respondents*

Responses	Customers	Staff
Male	40 (60.0%)	12 (48.0%)
Female	60 (40.0%)	13 (52.0%)
Total	100 (100.0%)	25 (100.0%)

Source: Field data, Dadzie (2016).

From Table 1, out of 100 customers, the females constituted 60% and the males were 40%. For the 25 staff or employees, 52% were males and 48% were females. In both the case of customers and staff, the proportion of females was higher than the proportion of males.

Age category of respondents

The analysis of the age category of the respondents is considered important for knowing the calibre of people who responded to the questionnaire. It is assumed that the assessment by younger respondents will be relatively different from older respondents and the older the respondents, the more analytical they are likely to be as compared to the younger respondents, all things being equal. Table 2 captures the results obtained.

Table 2: *Age distribution of respondents*

Responses	Customers	Staff
18 – 29 years	10 (10.0%)	2 (8.0%)
30 – 39 years	40 (40.0%)	9 (36.0%)
40 – 49 years	20 (20.0%)	8 (32.0%)
50 – 59 years	20 (20.0%)	4 (16.0%)
60 years and above	10 (10.0%)	2 (8.0%)
Total	100 (100.0%)	25 (100.0%)

Source: Field data, Dadzie (2016)

The results indicate that out of the total respondents, 40% customers and 36% staff were within the age group of 30 to 39 years. However, a few of the customers 10% were between 18 and 29 years and 60 years and beyond. With regards to staff, 8% was within the age category of 18 – 29 years and 60 years and above. In conclusion, it can be said that majority of the respondents were within the ages of 30 to 39 for both customers and staff.

Educational Status of Respondents

Education is a variable which is usually used to assess the intellect of people. The higher the level of a person's education, the more critical and analytical he or she is likely to be as compared to someone with lower education. The evaluation and assessment by educated people are more likely to be objective as compared to the less educated. Table 3 illustrates the results obtained

Table 3: *Educational Status of Respondents*

Responses	Customers	Staff
No education	35 (35.0%)	-
Junior High school	25 (25.0%)	-
High school	21 (21.0%)	-
Diploma	14 (14.0%)	6 (24.0%)
Bachelors' degree	5 (05.0%)	11 (44.0%)
Masters' degree	-	6 (24.0%)
Ph. D	-	2 (8.0%)
Total	100 (100.0%)	25 (100.0%)

Source: Field data, Dadzie (2016).

It could be observed that on the question of the educational qualification of respondents, a large proportion of the customers 35% were no education at all while 44% employees were Bachelors' degree holders. Owing to respondents' level of education, customers may not be very critical, analytical and objective in their evaluation and assessing interest and prime rates as compared to staff impact of Microfinance who are enlightened in knowledge level. Given the level of respondents' education, their assessments are more likely not be as objective.

Employment Status of Respondents

The researcher gathered information regarding the employment status of respondents and their responses have been presented in Table 4.

Table 4: *Employment Status*

Status	Customers	Status	Staff
Employed	30 (30.0%)	Full time	15 (60.0%)
Unemployed	20 (20.0%)	Part-time	10 (40.0%)
Self-Employed	50 (50.0%)	-	-
Total	100 (100.0%)		25 (100.0%)

Source: Field data, Dadzie (2016).

From the results in Table 4, half of the customers 50% were self-employed while 30% were employed with 20% unemployed. That notwithstanding, majority of the employees of the selected microfinance institutions were full time workers with 40% being part-time. It can therefore be concluded that majority of the customers and employees were self-employed and full time staff respectively.

Institutions of Respondents

Information was also gathered by the researcher concerning the specific institutions with which customers transacted or employees worked with. Results have been displayed in Table 5.

Table 5: *Microfinance Institution Affiliated to*

Responses	Customers	Staff
Express Savings and Loans	10 (10.0%)	5 (20.0%)
Sinapi Aba Trust	40 (40.0%)	11 (44.0%)
Bayport financial services	30 (30.0%)	4 (16.0%)
Opportunity International Savings and Loans	20 (20.0%)	5 (20.0%)
Total	100 (100.0%)	25 (100.0%)

Source: Field data, Dadzie (2016).

With regards to the institutions with which customers transacted or employees worked with, a greater number of the respondents thus, 40 (40.0%) customers and 11 (44.0%) employees were with Sinapi Aba trust. That notwithstanding, 30 (30.0%) customers were with Bayport financial services, 20 (20.0%) with Opportunity International Savings and Loans and a few of them 10 (10.0%) with Express Savings and Loans. With reference to employees, quite a number of them 5 (20.0%) were with Express and Opportunity International Savings and Loans. However, the employees who partook in the study 4 (16.0%) were with Bayport financial services. It can therefore be concluded that most of the respondents were with Sinapi Aba Trust.

Length of Transaction or Service

The objectivity of the assessment the respondents, most especially the customers depend much on the extent to which they have been doing business with the selected microfinance institutions. Customers and employees who have been transacting and working with the institutions respectively for a long time, are more likely to give a much better assessment than those who have been with them for only a short moment.

Table 6: *Length of Transaction or Service*

Responses	Customers	Staff
Less than 1 year	20 (20.0%)	2 (8.0%)
1 – 3 years	30 (30.0%)	9 (36.0%)
More than 3 years	50 (50.0%)	14 (56.0%)
Total	100 (100.0%)	25 (100.0%)

Source: Field data, Dadzie (2016).

From the results in Table 6, half of the customers 50 (50.0%) and majority of the employees 14 (56.0%) had been with the selected microfinance institutions for more than 3 years. However, a few of them 20 (20.0%) and 2 (8.0%) had been with them for less than a year. This means that most of the respondents had been with Express Savings and Loans, Sinapi Aba Trust, Bayport Financial Services and Opportunity International Savings and Loans for quite some time and therefore were in a very good position to give a much better assessment of the impact of microfinance on rural communities in Agona District in the Central Region of Ghana.

Customers' Level of Awareness of Microfinance Programs

Customers were required to use a 5-point Likert scale anchored on Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and Strongly Agree (5) to measure customers' level of awareness of microfinance programs. The means and standard Deviations are presented in Table 7.

Table 7: *Customers' Knowledge Level of Microfinance Programmes*

Questionnaire items	Mean	Standard Deviation	Rank
I am aware of the existence of microfinance institutions in my community	3.5000	1.21023	2
I have knowledge of average amount given as loan, duration and terms of payment of microfinance institutions in my community	3.1000	1.30655	4
I understand the joint liability of loans applied for and received as a group	2.7000	1.27525	7
I agree that savings are more important than credit to build my future	4.0000	.89893	1
I feel obliged to repay loans on behalf of others I am in the same group with, who are unable to repay.	2.8000	1.25529	6

I have knowledge about the interest rates on loans from microfinance institutions.	2.9000	1.22680	5
I prefer the services of microfinance institutions to traditional banks because of their less expensive but quality services.	3.4000	1.50420	3
I am aware of the minimum balance account opening terms of microfinance institutions.	2.9000	1.45297	5

N = 100

Source: Field data, Dadzie (2016).

It could be concluded from the value of means generated that, 'I agree that savings are more important than credit to build my future' scored the highest mean of (4.00) per respondent among other factors. However, the statement 'I understand the joint liability of loans applied for and received as a group' was rated the lowest with a mean score of 2.70 which is a little below average. Thus, respondents did not strongly agree to understanding the condition attached to the loan application process of the selected microfinance institutions, which implies joint liability of loans applied for and received as a group. This could be explained as customers' unhappiness with this very condition since it puts them at the losing end forgetting that, that is their guarantee of loan repayment to the bank. In this regard, there is the need for management to put measures in place to ensure that payments due are made by responsible persons in the group.

Effects of microfinance programmes or institutions on poverty reduction

Furthermore, the customers were required to use a 5-point Likert scale anchored on Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and Strongly Agree (5) to assess the effects of microfinance programmes or institutions on poverty reduction. The means and standard Deviations are presented in Table 8.

Table 8: *Effects of microfinance programmes or institutions*

Questionnaire items	Mean	Standard Deviation	Rank
Increase in total income	2.9000	1.38170	3
Meeting daily, health and financial needs as well as sustaining a specified level of economic well-being (better food and high standard of living)	2.6000	1.28708	5
Increase in personal assets (livestock, equipment, land, etc)	2.1000	1.38170	6
Providence against having to sell physical assets to protect household assets.	2.7000	1.42489	4
Enhances quality of life and self-confidence	3.3000	1.42489	1
Microfinance interventions have a	3.1000	1.04929	2

positive impact on the education of children.

N = 100

Source: Field data, Dadzie (2016).

From the value of means generated, 'Enhances quality of life and self-confidence' scored the highest mean of (3.30) per respondent followed by positive impact on wards' education, increase in total income, Providence against having to sell physical assets to protect household assets, better food and high standard of living. However, the statement 'Increase in personal assets like livestock, equipment and land' was rated the lowest with a mean score of 2.10 which is below average. Thus, customers disagreed to microfinance programmes or institutions causing an increase in their personal assets aside providing better food and good standard of living thus, enhancing their quality of life. This is disadvantageous to the selected microfinance institutions since it is likely to discourage prospective clients hence the need to put proper measures in place to make their services more attractive. This calls for a decrease in interest rates to enable clients save more to increase their personal assets, which they can later use as guarantee to apply for loans individually and not as a group hence, avoiding the shared responsibility of loan repayment.

Challenges Faced by Customers in Assessing Loans

In addition, the customers were asked by the researcher to use a 5-point Likert scale anchored on Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and Strongly Agree (5) to measure the challenges faced by

customers in assessing loans from microfinance institutions. The means and standard Deviations are presented in Table 9.

Table 9: *Challenges Faced by Customers*

Questionnaire items	Mean	Standard Deviation	Rank
High transaction cost in gaining access to loans.	3.2000	1.33333	2
Cost of travelling long distances to deposit savings or repay a loan.	2.2000	1.33333	6
Lack of collateral and a legal title to my house or land prevents me from assessing loans from microfinance institutions.	3.9000	1.38170	1
Some institutions fail to communicate interest rates and commissions in a transparent manner to me.	2.9000	1.14150	3
Negative perceptions, beliefs and customs about microfinance institutions discourage me from acquiring loans.	2.9000	1.22680	3
Inability of women in rural	2.5000	1.50756	5

communities joining in the programme owing to husbands' refusal.

MFIs in their project designs are failing to meet the needs of the very poor and destitute, who have high demand for the services of MFIs, especially for savings.

N = 100

Source: Field data, Dadzie (2016).

It could be concluded from the value of means generated that, 'lack of collateral and a legal title to my house or land prevents me from assessing loans from microfinance institutions' which scored the highest mean of (3.90) per respondent among other constraints, was the greatest challenge faced by customers assessing loans from microfinance institutions. This was followed by 'high transaction cost in gaining access to loans' (3.20), 'some institutions fail to communicate interest rates and commissions in a transparent manner to me' and 'negative perceptions, beliefs and customs about microfinance institutions discourage me from acquiring loans' (2.9). That notwithstanding, 'cost of travelling long distances to deposit savings or repay a loan' was rated the lowest with a mean score of 2.20 which was a little below average showing that customers disagreed with the assertion. This is an indication that the selected microfinance institutions do well with proximity thus, getting as close as possible to clients to ensure deposits or loan repayment and this is a

competitive advantage. However, there is the need for MFIs to assist customers and would-be clients acquire the needed collateral through consistent deposits and well communicated good interest rates, which can further be used by the clients to acquire loans from the same institutions thereby, discarding the negative perceptions clients have about MFIs.

Constraints facing Microfinance Institutions

Nonetheless, staff or employees of the selected microfinance institutions were required to use a 5-point Likert scale anchored on Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and Strongly Agree (5) to measure the difficulties or constraints encountered by microfinance institutions in reaching the poor in rural areas. The means and standard Deviations are presented in Table 10.

Table 10: *Constraints Faced By Microfinance Institutions*

Questionnaire items	Mean	Standard Deviation	Rank
High transaction cost and high cost of expanding outreach, make it unprofitable to serve the rural poor	3.6000	1.25831	3
High additional costs for ensuring security and managing liquidity (high unit costs are usually passed on to the clients)	3.7200	.89069	1

High credit risk for borrowers and microfinance institutions (inhabitants of rural areas mostly depend on seasonal agricultural and livestock production for livelihood)	3.4800	1.15902	5
Lack of collateral and a legal title to clients' immovable properties possess as a challenge for loan assessment by microfinance institutions.	3.6800	1.18040	2
Higher illiteracy rate in rural areas	3.5600	1.22746	4
Some institutions' failure to communicate interest rates and commissions in a transparent manner	2.4000	1.25831	
Difficulty in hiring and keeping well-trained staff willing to work in a rural community.	3.7200	1.13725	1
Negative perceptions of prospective clients about microfinance institutions	3.0400	1.51327	7

discourage them from acquiring loans.			
Low level of awareness of the operations MFIs in rural communities	3.3600	1.28712	6
Inadequate support from government	3.6800	1.14455	2
High turnover of MFI staff and limited support from management for human and institutional capacity building	3.3600	1.43991	6
Lack of standardized reporting and performance monitoring system for MFIs	2.6000	1.22474	8

N = 25

Source: Field data, Dadzie (2016).

In relation to the constraints encountered by microfinance institutions in reaching the poor in rural areas, from the value of means generated, ‘difficulty in hiring and keeping well-trained staff willing to work in a rural community’ and ‘high additional costs for ensuring security and managing liquidity (high unit costs are usually passed on to the clients)’ scored the highest mean of (3.72) among other challenges. This was followed by ‘lack of collateral and a legal title to clients’ immovable properties possess as a

challenge for loan assessment by microfinance institutions’ and ‘Inadequate support from government’ with a means score of (3.68). The next in line was ‘high transaction cost and high cost of expanding outreach, making it unprofitable to serve the rural poor’ (3.60) and ‘higher illiteracy rate in rural areas’ (3.56) among others. From the results, for a positive impact of microfinance on rural communities, there is the need for microfinance institutions to motivate their employees with incentives like prompt overtime payment, bonuses, health insurance schemes and soft loans among other motivational incentives like promotion based on performance, good salaries, proper pension schemes and paid vacations to mention but a few. This is to boost the morale of well-trained employees with the requisite skills to work well in rural areas thereby increasing employee retention in the industry and reducing turnover. Moreover, the findings revealed that high illiteracy in rural areas poses a challenge to their smooth operation in rural areas in order to reach out to the poor. This calls for a campaign in rural communities on the essence of both formal and informal education. This can be done through public announcements, at durbars and festive occasions, where there is the possibility of reaching out to a greater number of the indigenes and residents of these rural communities. Their enlightenment will then help them understand the effort of microfinance institutions in reducing poverty in rural communities for a better Ghana. These avenues can also be used to increase the awareness of residents on the operations of microfinance institutions.

Strategies to Improve the Services of MFIs

Also, the respondents were required to use a 5-point Likert scale anchored on Strongly Disagree (1), Disagree (2), Uncertain (3), Agree (4) and

Strongly Agree (5) to measure the strategies to improve the services of microfinance institutions (MFIs). The means and standard Deviations are presented in Table 11.

Table 11: *Strategies to Improve the Services of MFIs*

Questionnaire items	Mean	Standard Deviation	Rank
Increasing length of period for repayment of loans and amount of loan offered	3.9000	1.38170	1
Provision of wide range of services from consumption to business loans.	2.6000	1.36330	5
Decreasing transaction cost for loan application	2.6000	1.28708	5
Ensuring good communication of interest rates in a transparent manner	3.7000	1.27525	2
Improving service quality	3.6000	1.20605	3
Ensuring the retention of good and qualified staff	3.4000	1.28708	4

N = 100

Source: Field data, Dadzie (2016).

From the results, the value of means displayed in Table 4.11 show that, 'Increasing length of period for repayment of loans and amount of loan offered' scored the highest mean of (3.90) per respondent followed by good communication of interest rates in a transparent manner (3.70), improvement in service quality (3.60), retention of good and qualified staff (3.40) and provision of wide range of services as well as decreasing transaction cost for loan application (2.60). It can therefore be concluded based on the findings that, MFIs in order to improve their service delivery must increase their loan repayment period, communicate well with clients with specific reference to interest rates as well as maintain their good staff and prevent the situation of having employees leave the institution for a better offer elsewhere.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter summarizes the study and conclusions drawn from the findings. Recommendations regarding how to address the various challenges that came out of the discussion and analysis, and suggestions in relation to the impact of Microfinance on Rural communities in Agona District in the Central Region of Ghana and how to overcome the limitations that were also identified.

Summary

It has been realised that those who live in rural areas or poor people all over the world are many a time excluded from the formal financial system ranging from partial exclusion in developed countries to full or nearly full exclusion in Less Developed Countries (Jegede et al, 2011). In this regard, different approaches of development have been created by international development agencies, policymakers, and nongovernmental organizations over the past two decades, to reduce poverty especially in developing countries. One of these strategies, which has become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Frimpong and Nguerenomo, 2014).

In view of this, the study sought to assess the impact of Microfinance on Rural communities in Agona District in the Central Region of Ghana. The

specific objectives included to: assess customers' levels of awareness of microfinance programmes in place in rural communities in Agona District, to reduce poverty; determine the effect of microfinance on poverty reduction in rural communities in Agona District; ascertain the challenges faced by residents in acquiring loans from MFIs; identify constraints associated with the operation of microfinance institutions (MFIs) in rural communities in Agona District, in reducing poverty; and suggest ways that microfinance can use to improve its services.

In order to address the objectives properly, the following research questions were answered by adopting a survey methodology for the study which involved self-administered questionnaires to solicit data from one hundred (100) customers and twenty-five (25) employees of selected microfinance institutions in Agona District in the Central Region of Ghana. The Statistical Package for Social Science (SPSS) was then used to analyze the completed questionnaire. The questionnaire gave each respondent the opportunity to assess the impact of Microfinance on Rural communities.

Key Findings

1. It was realized that, the respondents did not strongly agree to understanding the condition attached to the loan application process of the selected microfinance institutions, which implies joint liability of loans applied for and received as a group.
2. It was found out that, the value of means generated, 'Enhances quality of life and self-confidence' scored the highest mean of (3.30) per respondent followed by positive impact on wards' education, increase in total income, Providence against having to sell physical assets to

protect household assets, better food and high standard of living. However, the statement 'Increase in personal assets like livestock, equipment and land' was rated the lowest with a mean score of 2.10 which is below average. Thus, customers disagreed to microfinance programmes or institutions causing an increase in their personal assets aside providing them better and good standard of living thus, enhancing their quality of life.

3. It realized that, the value of means generated that, 'lack of collateral and a legal title to my house or land prevents me from assessing loans from microfinance institutions' which scored the highest mean of (3.90) per respondent among other constraints, was the greatest challenge faced by customers assessing loans from microfinance institutions. This was followed by 'high transaction cost in gaining access to loans' (3.20), 'some institutions fail to communicate interest rates and commissions in a transparent manner to me' and 'negative perceptions, beliefs and customs about microfinance institutions discourage me from acquiring loans' (2.9). That notwithstanding, 'cost of travelling long distances to deposit savings or repay a loan' was rated the lowest with a mean score of 2.20 which was a little below average showing that customers disagreed with the assertion.
4. In relation to the constraints encountered by microfinance institutions in reaching the poor in rural areas, from the value of means generated, 'difficulty in hiring and keeping well-trained staff willing to work in a rural community' and 'high additional costs for ensuring security and managing liquidity (high unit costs are usually passed on to the

clients)' scored the highest mean of (3.72) among other challenges. This was followed by 'lack of collateral and a legal title to clients' immovable properties possess as a challenge for loan assessment by microfinance institutions' and 'Inadequate support from government' with a means score of (3.68). The next in line was 'high transaction cost and high cost of expanding outreach, making it unprofitable to serve the rural poor' (3.60) and 'higher illiteracy rate in rural areas' (3.56) among others.

5. From the results, the value of means displayed in Table 4.11 show that, 'Increasing length of period for repayment of loans and amount of loan offered' scored the highest mean of (3.90) per respondent followed by good communication of interest rates in a transparent manner (3.70), improvement in service quality (3.60), retention of good and qualified staff (3.40) and provision of wide range of services as well as decreasing transaction cost for loan application (2.60). It can therefore be concluded based on the findings that, MFIs in order to improve their service delivery must increase their loan repayment period, communicate well with clients with specific reference to interest rates as well as maintain their good staff and prevent the situation of having employees leave the institution for a better offer elsewhere.

Conclusions

In absence of the access to formal financial services, the poor in both developed and less developed countries have come up with a wide range of informal community based financial arrangements to meet their financial needs and this is referred to as microfinance (Irobi, 2008), with the main aim

of providing sustainable facilities to the poor, low income earners, self-employed and household-based businesses to facilitate income generation and the reduction of poverty (Berg, 2010).

Nonetheless, microfinance in Ghana is plagued with a lot of challenges including poor recovery rate, lack of capital for sustainability, inadequate credit delivery and management, inability to reach the vulnerable and the marginalized, regulation and supervision problems and high turnover of MFI staff, to mention but a few. Regardless of available literature on the study area, which revealed that selected microfinance variables such as volume of loan last taken, cumulative loan, loan cycle, experience with the microfinance institution and education have positive significant impact on client's poverty status, overall studies in the subject area remain few in addressing the effect of microfinance on poverty reduction or alleviation (Aigbokhan & Asemota, 2011). In view of this, the study assesses the impact of Microfinance on Rural communities in Agona District in the Central Region of Ghana. The quantitative method of research was adopted for the study. A sample of one hundred (100) customers together with twenty-five (25) employees of selected microfinance institutions in Agona District in the Central Region of Ghana was selected. In this study, the purposive and census sampling techniques were used to select customers and employees respectively. The instrument adopted involved administering questionnaires to respondents. The researcher then analyzed the primary data acquired using Statistical Package for Social Scientist (SPSS) to verify the validity of the information.

The study revealed that customers disagreed to microfinance programmes or institutions causing an increase in their personal assets aside

providing better food and good standard of living. The findings further revealed that the difficulty in hiring and keeping well-trained staff willing to work in a rural community and high additional costs for ensuring security and managing liquidity were the most challenging issues faced by MFIs in reaching the poor in rural areas. That notwithstanding, the results showed the lack of collateral and a legal title to a piece of land as the greatest challenged faced by customers in assessing loans from microfinance institutions. In view of the many challenges encountered by customers, they proposed an increase in the length of period for repayment of loans and loan offered as well as good communication of interest rates in a transparent manner to improve the service quality of MFIs.

Recommendations

Based on the findings of the study, the following recommendations were made.

1. It was evident in the findings that, customers disagreed to microfinance programmes or institutions causing an increase in their personal assets aside providing them better and good standard of living thus, enhancing their quality of life. This is disadvantageous to the selected microfinance institutions since it is likely to discourage prospective clients hence the need to put proper measures in place to make their services more attractive. This calls for a decrease in interest rates to enable clients save more to increase their personal assets, which they can later use as guarantee to apply for loans individually and not as a group hence,

avoiding the shared responsibility of loan repayment. In addition, there should be good communication of interest rates to customers and prospective clients in a very transparent manner.

2. The findings showed that respondents did not strongly agree to understanding the condition attached to the loan application process of the selected microfinance institutions, which implies joint liability of loans applied for and received as a group. This could be explained by customers' unhappiness with this very condition since it puts them at the losing end forgetting that, that is their guarantee of loan repayment to the bank. In this regard, there is the need for management to put a policy in place to ensure that payments due are made by responsible persons in the group. This can be done by involving the law enforcement agency or external debt collectors to ensure the repayment of loans at scheduled dates thereby avoiding credit risk through proper management. That notwithstanding, length of period for repayment of loans can be extended in extreme cases to assist clients while retaining them thus, increasing customer retention.
3. From the results, for a positive impact of microfinance on rural communities, there is the need for management of microfinance institutions to motivate their employees with incentives like prompt overtime payment, bonuses, health insurance schemes and soft loans among other motivational incentives like promotion based on performance, good salaries, proper pension schemes and paid vacations to mention but a few. This is to boost the morale of well

trained employees with the requisite skills to work well in rural areas thereby increasing employee retention in the industry and reducing turnover. This will in turn increase the quality of service offered to customers.

4. Moreover, the findings revealed that high illiteracy in rural areas poses a challenge to their smooth operation in rural areas in order to reach out to the poor. This calls for a campaign in rural communities on the essence of both formal and informal education. This can be done through public announcements, at durbars and festive occasions, where there is the possibility of reaching out to a greater number of the indigenes and residents of these rural communities. Their enlightenment will then help them understand the effort of microfinance institutions in reducing poverty in rural communities for a better Ghana. These avenues can also be used to increase the awareness of residents on the operations of microfinance institutions.

Suggestions for Further Research

This study sought to assess the effect of microfinance on poverty reduction among the rural residents of Agona District. The study could be replicated in other institutions in other regions in the country to find out what persists there. Also, the study was conducted using the questionnaire as the only instrument for data collection. Future studies need to include the use of interviews in order to make the study more interactive.

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APPENDICES

APPENDIX A

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

COLLEGE OF DISTANCE EDUCATION

QUESTIONNAIRE FOR CUSTOMERS OF MFIs

This questionnaire is aimed at assessing the impacts of Microfinance in rural communities in Agona District in the Central Region of Ghana. This questionnaire is purely for academic work and I therefore ask for your maximum co-operation with assurance that information provided here will be treated with utmost confidentiality and anonymity.

Please respond to each of the following items by ticking (√) the appropriate response box.

Section A: Personal Profile

1. Gender 01. Male () 02. Female ()

2. Age 01. 18 – 29 () 02. 30 – 39 () 03. 40 – 49
() 04. 50 – 59 () 05. 60 and above ()

3. Educational status

01. No School at all ()

02. Junior High sch. ()

03. High school ()

- 04. Diploma ()
- 05. Bachelors' degree ()
- 06. Others, specify

4. Employment Status

- 01. Employed ()
- 02. Unemployed ()
- 03. Self-Employed ()

5. Which microfinance institution do you transact with?

.....

6. How long have you been transacting with this microfinance institution?

- 01. Less than 1 year () 02. 1 -3 years () 03. More than 3 years ()

Section B: Customers' level of awareness of microfinance programs

7. Please tick (√) the appropriate box to indicate your opinion on these statements: 1 = Strongly Disagree (SD); 2 = Disagree (D); 3 = Uncertain (U); 4 = Agree (A); 5 = Strongly Agree (SA)

Statement	SD	D	U	A	SA
1. I am aware of the existence of microfinance					

institutions in my community					
2. I have knowledge of average amount given as loan, duration and terms of payment of microfinance institutions in my community					
3. I understand the joint liability of loans applied for and received as a group					
4. I agree that savings are more important than credit to build my future					
5. I feel obliged to repay loans on behalf of others I am in the same group with, who are unable to repay.					
6. I have knowledge about the interest rates of loans from microfinance institutions.					
7. I prefer the services of microfinance institutions to traditional banks because of their less expensive but quality services.					
8. I am aware of the minimum balance account opening terms of microfinance institutions.					

Section C: Effects of microfinance programmes or institutions on poverty reduction

8. Please tick (✓) the appropriate box to indicate your opinion on these statements: 1 = Strongly Disagree (SD); 2 = Disagree (D); 3 = Uncertain (U); 4 = Agree (A); 5 = Strongly Agree (SA)

Statement	SD	D	U	A	SA
1. Increase in total income					
2. Meeting daily, health and financial needs as well as sustaining a specified level of economic well-being (better food and high standard of living)					
3. Increase in personal assets (livestock, equipment, land, etc)					
4. Providence against having to sell physical assets to protect household assets.					
5. Enhances quality of life and y self-confidence					
6. Microfinance interventions have a positive impact on the education of children.					

Section D: Challenges Faced by customers in assessing loans from microfinance institutions

9. Please tick (√) the appropriate box to indicate your opinion on these statements: 1 = Strongly Disagree (SD); 2 = Disagree (D); 3 = Uncertain (U); 4 = Agree (A); 5 = Strongly Agree (SA)

Statement	SD	D	U	A	SA
1. High transaction cost in gaining access to loans.					
2. Cost of travelling long distances to deposit savings or repay a loan.					
3. Lack of collateral and a legal title to my house or					

land prevents me from assessing loans from microfinance institutions.					
4. Some institutions fail to communicate interest rates and commissions in a transparent manner to me.					
5. Negative perceptions, beliefs and customs about microfinance institutions discourage me from acquiring loans.					
6. Inability of women in rural communities joining in the programme owing to husbands' refusal					
7. MFIs in their project designs are failing to meet the needs of the very poor and destitute, who have high demand for the services of MFIs, especially for savings.					

Section E: Strategies to improve the services of MFIs

10. Please tick (✓) the appropriate box to indicate your opinion on these statements: 1 = Strongly Disagree (SD); 2 = Disagree (D); 3 = Uncertain (U); 4 = Agree (A); 5 = Strongly Agree (SA)

Statement	SD	D	U	A	SA
1. Increasing length of period for repayment of loans and amount of loan offered					
2. Provision of wide range of services from consumption to business loans.					

3. Decreasing transaction cost for loan application					
4. Ensuring good communication of interest rates in a transparent manner					
5. Improving service quality					
6. Ensuring the retention of good and qualified staff					

11. What are your recommendations to improve the services of MFIS?

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APPENDIX B
UNIVERSITY OF CAPE COAST
SCHOOL OF BUSINESS
COLLEGE OF DISTANCE EDUCATION
QUESTIONNAIRE FOR STAFF OF MICROFINANCE
INSTITUTIONS' (MFIS)

This questionnaire is aimed at assessing the impacts of Microfinance on in rural communities in Agona District in the Central Region of Ghana. This questionnaire is purely for academic work and I therefore ask for your maximum co-operation with assurance that information provided here will be treated with outmost confidentiality and anonymity.

Please respond to each of the following items by ticking (√) the appropriate response box.

Section A: Personal Profile

12. Gender 01. Male () 02. Female ()

13. Age 01. 18 – 29 () 02. 30 – 39 () 03. 40 – 49 ()
 04. 50 – 59 () 05. 60 and above ()

14. Educational status

01. High school ()

02. Diploma ()

03. Bachelors' degree ()

04. Masters' degree ()

05. Ph. D ()

15. Terms of employment with the microfinance institution you work for

04. Full time ()

05. Part-time ()

16. Which microfinance institution do you work with?

.....

17. Length of service

01. Less than 1 year () 02. 1 -3 years () 03. More than 3 years ()

Section B: Constraints Faced by Microfinance Institutions in Reaching the Poor in rural areas

18. Please tick (√) the appropriate box to indicate your opinion on these statements: 1 = Strongly Disagree (SD); 2 = Disagree (D); 3 = Uncertain (U); 4 = Agree (A); 5 = Strongly Agree (SA)

Statement	SD	D	U	A	SA
1. High transaction cost and high cost of expanding outreach, make it unprofitable to serve the rural poor					
2. High additional costs for ensuring security and managing liquidity (high unit costs are usually passed on to the clients)					

3. High credit risk for borrowers and microfinance institutions (inhabitants of rural areas mostly depend on seasonal agricultural and livestock production for livelihood)					
4. Lack of collateral and a legal title to clients' immovable properties possess as a challenge for loan assessment by microfinance institutions.					
5. Higher illiteracy rate in rural areas					
6. Some institutions' failure to communicate interest rates and commissions in a transparent manner					
7. Difficulty in hiring and keeping well-trained staff willing to work in a rural community					
8. Negative perceptions of prospective clients about microfinance institutions discourage them from acquiring loans.					
9. Low level of awareness of the operations MFIs in rural communities					
10. Inadequate support from government					
11. High turnover of MFI staff and limited support from management for human and institutional capacity building					
12. Lack of standardized reporting and performance monitoring system for MFIs					

19. In your opinion, what strategies or measures can be put in place to improve the services of microfinance institutions in rural communities in Agona District?

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Thank You