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Managing institutional characteristics and client information for sustainability of microfinance institutions in Ghana

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Abstract

The purpose of this study is to find out the impact of institutional characteristics and client information on sustainability of microfinance institutions (MFI) in Ghana. These factors are ownership, propensity to lend, motivation for setting up, clientele type, source of funding and quality of information on clients. The methodological approach adopted for the study was a mix of interviews and questionnaire involving 14 CEOs and 116 MFIs. The findings indicate that even though all the institutional factors studied tend to impact on sustainability much emphasis is placed on motivation for setting up, clientele type and good quality information on clients. Urban traders, the study discovered were the preferred clientele just as quality information on their clientele ensured that the MFI minimizes the risks involved in lending. A planned, focused and sustained effort to grow is a sine qua non if an MFI is to survive. Recommendations on how the MFIs can exploit their institutional characteristics and client information to enhance their sustainability have been made.

Keywords: Sustainability, MFI, Motivation, Client information, Microfinance, Ghana

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1. Introduction

In Ghana, the financial liberalization policies of the 1980's coupled with a relaxed regulatory environment for microfinance resulted in tremendous growth and spread of microfinance institutions (Steel and Andah, 2003). Aryeetey and Gockel (1991), show that microfinance institutions are pivotal as far as credit for development is concerned. However, the critical issue to be answered is the sustainability of microfinance institutions. The main issue regarding sustainability has to do with how microfinance institutions manage their institutional characteristics of ownership type, motivation, clientele type, funding and information gathering. The sustainability of microfinance therefore hinges on an effective management of these institutional characteristics.

According to Ledgerwood (2006), institutional transformation has profound implications for the ownership and governance structure of an MFI. According to her, ownership has an effect on governance, strategic direction, institutional culture, management, policies and procedures. She further stated that as in any industry, the types of investors (ownership) seeking to invest in MFIs varies. The particular nature of the microfinance industry, with its focus on financial and social returns, adds even more variation to investor profiles. Their investment objectives, return expectations, time horizons and exit strategies may differ significantly from one another as do the implications for their role in governance. She identified the many types of ownership as company with shareholders, donors who provide grant capital and investors with huge capital, cooperatives and owner-employee ventures.

Microfinance started as a movement with the poor and vulnerable in the society, especially in developing countries as the focus. The aim was to provide the poor with credit to enable them undertake meaningful economic ventures so as to support themselves and their families. Littlefield, Morduch and Hashemi (2003) emphasized how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women. Even though most MFIs stress eradication of poverty as their motivation for setting up, their approaches often differ to the extent that it becomes confusing if indeed the poor people are the target of their operations. Hulme and Mosley (1996) while acknowledging the role microfinance can help to reduce poverty concluded that most contemporary schemes are less effective than they might be.

The sustainability of an MFI depends on how effective repayments are enforced. An MFI that is plagued with large and continuous non-repayments faces eminent collapse. Microfinance clientele are the poor farmers, traders, artisans, teachers, fishermen and general workers. In this list, the most vulnerable who are likely to default in repayments are the farmers whose livelihood depends on uncertain weather conditions and the least vulnerable are the traders who mostly buy and sell immediately or shortly thereafter. The difficulty faced by MFIs is whether to stay with their traditional role of providing finance to the poor such as the farmers who are more likely to default in repayment or the rural and urban traders who make quick profits and are prompt payers?

According to Ledgerwood (2006), MFIs need enough funding to enhance their operations. These funds come from either commercial borrowings, donors, social funds or international lending. She further states that without access to capital markets, NGO MFIs must often rely on donor funding to sustain their growth. Relying on donor funds for capital accumulation places the MFI at the mercy of onerous bureaucratic hurdles as well as changes in political priorities. According to her the results from CGAP/MIX (2004) survey of 140 MFIs indicated that MFIs generally perceive the lack of funds as the greatest constraint to growth.

MFIs rely on information gathered on clients to make lending decisions. Information gathering could be through various ways such as loan guarantees, filling of forms, visits to clients, from neighbours and even engaging the client in conversations. Armendariz de Aghion (2005) states that many micro lenders spend considerable time talking with prospective borrowers, neighbours and friends when making lending decisions. Zeitinger (1996) indicates that one micro lender in Russia relies heavily on staff visits to applicants' business and homes, rather than just on business documents and in Albania applicants must often obtain a loan guarantee and character reference from a member of the local village credit committee. Churchill (1999) indicates that in BRI in Indonesia, most loan rejections are based on character, not the business assessment. At ADEMI in the Dominican Republican, credit officers also check the stability of home life, based on their finding that "troubled homes often become troubled borrowers" (Churchill 1999). In effect, better information on client is very critical to the sustainability of an MFI.

Very few studies have tested the sustainability of such institutions in sub-Saharan Africa (see appendice C) In Ghana studies on institutional characteristics of MFIs have not empirically tested it to see the extent to which it impacts on sustainability (see appendice C). Again, most of the studies have been in the area of impact analysis (Hulme and Mosley, 1996; MkNelly et al, 1996; Khandker, 1998; Pitt and Khandker, 1998; Coleman, 1999; Chen and Snodgrass, 2001; Coleman, 2004).

Secondly, these studies have tended to concentrate on the operations and coverage of MFIs and informal money lenders with little focus on their sustainability and success. Thus, there is very little information on how Ghanaian MFIs manage the agency problem.

1.1. Purpose of the Study

The purpose of the study was to examine the management of institutional characteristics and client information and how they translate into sustainability and success of MFIs in Ghana.

1.2. Hypotheses of the Study

The following were the hypotheses of the study:

i. If the ownership of a microfinance institution in Ghana is foreign, then sustainability will significantly increase.
ii. If MFIs commit more funds to lending then sustainability will significantly increase.
iii. If Executives' motivation to grow and empower the poor is high then sustainability will significantly increase.
iv. If there is increased relationship between MFIs and traders then their sustainability will increase significantly.
v. If funding for MFIs increase, then their sustainability will significantly increase.

vi. If Executives obtain good quality information on clients, then sustainability of MFIs will increase.

The study is structured into five sections. Section one is the introduction, section two examines the conceptual framework and literature review, section three centres on the research methods, section four is the results while section five is conclusion and recommendations.

2. Literature review

2.1. Micro financing

According to Otero (1999) microfinance is the provision of financial services to low-income poor and the very poor self-employed people. The survival and future sustainability of a microfinance institution (MFI) to a large extent depends on many factors and one of which is the institutional characteristics. The institutional characteristics are identified as ownership, increased funding, executives' motivation, clientele type; and information gathering.

2.2. Institutional characteristics and sustainability of MFI's

2.2.1. Ownership of MFI's

Owners of businesses are highly geared to market opportunities and they tend to give priority to profit maximization. Again, they pride in their ownership of efficient and sometimes quite complex organizational structures. According to Kimenyi (1998), ownership in this sense does not imply legal ownership, but legal ownership may be the basis of functional ownership. He contends further that how problematic the implications of private or public ownership will prove to be, depends in large part on the governance structure. Armendariz de Aghion and Morduch (2005) identified two unique types of ownership as employee ownership and cooperative or joint ownership.

The exploratory research revealed five broad categories of ownership; foreign, local, foreign and local partnership, government and single ownership. Whilst some of these institutions are owner-managed, others have professional (non-owner) managers. What remains unknown is whether the type of ownership in a microfinance institution influences sustainability and success.

2.2.2. Geographical Spread

Geographical spread, proposed as an important characteristic to gain performance effects in sustainability and success can be regarded as a proxy for resources where larger firms usually possess more product lines and higher lending capacity together with institutional resources.

2.2.3. Executives' Motivation

The founders of microfinance shared a vision of bringing financial to the poor who could not meet the standards of formal banking

2.2.4. Clientele Type of MFI's

For many observers, microfinance is a collection of banking practices built around providing small loans to the rural poor who are mostly farmers, fishermen, traders and artisans. According to Von Pischke (1991) cited in Zeller and Meyer (2002), small farmers were the primary concern in the 1960s and 1970s; the poor emerged as the focus in the 1980s and 1990s. What is important for this research is to identify which clientele type impact significantly on sustainability of MFIs and whether this is positive or negative.

2.2.5. Funding of MFI's

During the 70s Bangladesh started to rebuild its economy after gaining its independence from Pakistan. The challenges were great as widespread famine brought about by flooding killed tens of thousands (Sen, 1981). Muhammad Yunus, an economist and a lecturer, started a series of experiments lending to the poor households in the nearby village of Jobra. Realizing that he could only go so far with his own resources, in 1976 Yunus convinced the Bangladesh Bank, the Central Bank of Bangladesh, to help him set up a special branch. Very soon that was replicated in other places. Assured that the successes were not flukes or region-specific, Grameen Bank went nation-wide. One innovation that enabled Grameen Bank to grow rapidly was group-lending, a mechanism that allows the poor borrowers to act as guarantors for each other. In the early years funding was supplied by the International Fund for Agriculture and Development (IFAD), the Ford Foundation and the governments of Bangladesh, Sweden, Norway and the Netherlands. The question to be asked is whether that accounted for their sustainability?

From the exploratory research, it was discovered that the start-up capital for the MFIs were; foreign capital, local capital borrowings, family capital, members savings and government. To a large extent MFIs with large capital base are able to provide loans with long-term maturities. The lack of access to long-term credit for capital investments by the MFIs hampered their outreach and depth of their outreach. The Grameen Bank had increased funding from sources such as the International Fund for Agriculture and Development and the Ford Foundation and many other sources.

2.2.6. Client Information Management in MFI's

Information on clients is very essential in microfinance if agency problems are to be avoided or minimized. According to Armendariz de Aghion and Morduch (2005) agency problem refers to the lender's inability to observe the borrower's characteristics such as project riskiness, borrower's efforts or to observe her profits. These information problems create inefficiencies in the market.

The information problem arises at three distinct stages. First, prior to extending a loan, the lender may have little or no reliable information about the quality of the borrower. Sometimes a bit of scouting around by a loan officer may yield the required information, but too often the necessary background research on borrowers is prohibitively costly.

Improved information management enables MFIs to increase their efficiency in terms of increased speed, greater volume or lower costs—as well as their effectiveness in achieving their objectives and ultimately their sustainability (Frankiewicz, 2003). Acknowledging the importance of information management to the microfinance agenda, CGAP (2003) identified improved information as very critical to the sustainability of MFI's. Ensuring the availability of high-quality, reliable information on the financial and social performance of MFIs is critical to integrating microfinance into the formal financial sector. Accurate information will raise the quality and lower the cost of supervision, audits, and ratings; encourage greater flows of commercial and private funding; and allow microfinance providers to track their performance against one another (CGAP, 2003).

The widespread availability of relevant, accurate, and comparable information about an institution – is increasingly recognized as a cornerstone in the evolution of microfinance. Transparency opens the door for microfinance to become integrated into financial systems because the participants and guardians of the financial system demand high quality information to guide their informed judgments about MFIs (MFIs) (Rhyne, 2002). According to Waterfield and Ramsing (1998) because having good information is essential for an institution to perform efficiently and effectively—the better its information, the better it can manage its resources. As more and more MFIs scale up their activities, managers are becoming increasingly aware of the need to improve their information systems.

High quality, timely and reliable information is essential to MFI performance, growth, internal control, portfolio quality, asset management, and liquidity management. With more, better and faster information, obtained by organizing and analyzing the huge volumes of data that are collected during a client's relationship, MFIs are in a stronger position to deliver products and services that customers value. They can use their enhanced understanding of customers' evolving needs to improve existing products and/or to develop new ones. They can adjust certain product features, alter the way in which a product is marketed, or improve the care and service with which the product is delivered. They can design new products to meet the needs of new markets, the newly identified needs of existing markets, or the particular needs of individual market segments. The efficiencies gained through better information management and the redesign of products and services frees up resources for MFIs to use elsewhere (Frankiewicz, 2003). Mainhart (1999) also shows how good information is critical in micro financing.

3. Research Methodology

The research was based on both the qualitative and quantitative approaches. A two stage approach was used. First, an exploratory qualitative interview was conducted by interviewing 14 executives of sampled microfinance institutions with focus on how institutional characteristics impact on performance MFIs. Responses gathered at the exploratory stage have been pulled into a table and largely forms the basis of our discussions and conclusions. (See Appendix B). This was followed by a self-administered survey involving 116 MFIs.

Data for this study is collected from two sources; the financial reports (secondary) and structured questionnaires and interviews (primary) to elicit institutional characteristics and modes of handling the performance variables. Operating manuals, where available and used were used to examine mode of day to day operations of the selected MFIs. The survey data was complemented with information gathered through the qualitative phase. As such, the basis for the primary data used for the entire study was obtained from an exploratory stage and a qualitative survey stage.

The sampling frame included managing directors/ financial managers from MFIs in seven out of the ten regions of Ghana; Greater Accra, Eastern, Central, Western, Ashanti, Northern and Volta regions. This sample frame presents a fair national representation of the phenomena under study. The method for defining and creating the most appropriate sampling technique is a significant part of the research design (Lehmann, Gupta & Steckel, 1998). As one of the objectives of this research was to describe the institutional characteristics that affect sustainability of MFIs, it was determined that the most appropriate sampling method to utilize was a 'two phased' stratified random sampling technique (Churchill, 2000).

The stratum development began by assessing the regional distribution. From there the microfinance institutions located in the regions were determined. The next stage involved the aggregation of coverage by examining the regions with the high number of MFIs. The selection of Greater Accra, Central, Western, Eastern, Ashanti, Northern and Volta regions gave 130 MFIs, representing 74.4%. (See appendix 2)

Face to face interview method was mostly used. Respondents were first called by phone and briefed about the research. Their consent was sought for their participation and the face to face interviews conducted. There were instances where respondents though agreed to complete questionnaires, reneged. The face to face interview was not only expected to yield the high response rate but also to ensure that the appropriate personnel answered the questionnaires.

A two-stage approach was used in analyzing the data for the study. The first stage where sustainability was measured at the nominal level (yes=1, and no=0) which led to the use of the logistic regression and the chi-square test.

4. Results

In order to ascertain the importance of institutional characteristics as reported by Meyer (2002) and Armandariz de Aghion and Morduch (2005), the research question posed was, what were the major characteristics of the firm that impact on sustainability and success of MFIs? For the purpose of detailed analysis, institutional characteristics were decomposed into six major factors namely ownership, geographical spread, motivation of the MFI, clientele type, alternative funding and quality of information gathering. As a result of this, six hypotheses were postulated and tested on institutional characteristics and the sustainability of the MFI's.

4.1. Ownership of MFI's and Sustainability

The type of ownership of the MFI's were made of 67 (58.8%) foreign owned, 29 (25.4%) locally owned, and few, that is 18 (15.8%) that were owned by both foreign and local investors as shown in Table 3 (Appendix A). Out of the 81 FNGOs sampled, 66 (81.48%) were foreign owned, 3 (3.70%) were local entrepreneurs and 12 representing 14.83% were both foreign and locally owned. There were 10 sampled Savings and Loans Institutions and only 1(10%) was totally foreign owned, with 3 (30%) locally owned and the remaining 6 (60%) had both local and foreign ownership. The Credit Unions, the Rural Banks and the Susu companies were all locally owned emphasizing the regulatory limitation of foreigners entering the sector of micro financing.

The type of ownership of MFI's may impact on their sustainability in diverse ways, but more positively especially where the ownership is foreign and from a developed rather than from a developing country. The foreign owned MFI's may bring to bear the benefits of highly skilled personnel, access to and regular inflow of large capital, technology, among others compared to a wholly owned local MFI. On the contrary, the results in Table 9 show no significant (X^2=0.664, df=2, p>0.05) relationship between type of MFI ownership and sustainability. It was observed that more MFI's that were foreign owned (59.4%) were more likely to remain in business than their counterparts that were locally owned (24.5%). In contrast, among the MFIs that were not likely to remain in business, 50.0% were foreign owned whilst 37.5% were locally owned. In effect, sustainability of the MFIs was not significantly dependent on the type of ownership. Therefore at the 0.05 level, *the hypothesis that if the ownership of a microfinance institution in sub-Saharan Africa is foreign, then sustainability factors will significantly increase was not supported.*

4.2. Geographical spread

Geographical spread was based on the number of regional presence and a proxy for resources in terms of number of financial products and lending capacity where larger firms usually possess more products and higher lending capacity together with institutional resources.

On regional presence, when the MFI's were asked whether they had branches across the country, 22 (91.7%) answered in the affirmative as against only 2 (8.3%) who stated otherwise. Thus the majority of the MFI's had branches or other outlets across the country.

The results in Table 4 shows the geographical spread or the regional presence of the MFIs sampled. The most representation of the MFIs was from the Greater Accra region (28.9%) while the least representations were from Central and Western regions with 8.8% each. Generally, the MFI's covered towns and cities in 7 out of the 10 regions of Ghana – namely Greater Accra, Eastern, Volta, Ashanti, Northern, Brong Ahafo, and Western regions and the majority had branches across the country.

The impact of increased lending by the MFI on the sustainability and success was also investigated. Increased lending was used as a measure of the MFIs ability to boost their income. The results in Table 10 show the propensity of MFI's to commit more funds to lending and their possible sustainability. It can be observed that the majority (83.0%) of the MFI's with propensity to commit more funds to lending were more likely to remain in business. Contrary to expectation, all the MFIs who were perceived as not sustainable (8) were ready to commit more funds to lending; probably due to the increasing bad debts. The tests result revealed no significant relationship between the propensity to commit more funds to lending and the sustainability of the MFI (X^2 = 1.631, df = 1, p> 0.05). Therefore at 95% significance level*, the hypothesis that if MFIs commit more funds to lending then sustainability factors will significantly increase was not supported.*

4.3. MFI's motivation for setting up

The fundamental principle underlying the establishment of microfinance is poverty alleviation and economic empowerment through the provision of small loans especially among rural dwellers. The data on whether or not the MFI's executives motivation for setting up was to grow and empower the poor, revealed that whilst 76% of the MFIS's executives were indeed motivated to establish the institution because of the desire to grow and empower the poor, 14.0% were not and the remaining 10% cited business and training as the major motivating factor for establishing the institutions. Thus, the level of motivation to grow and empower the poor among the MFI"s sampled was somewhat average (see appendix, Table 5). One Chief Executive stated that:

'' We were set up to transform the economically active into sustainable livelihood. That is the key objective but we have Christian mission alongside. However the Christian consideration does not override business assessment and thinking''

Another Chief Executive stated that:

> *''We want to encourage the habit of savings among the poor so they can accumulate funds and get out of poverty. So savings is the key objective and secondly to give out loans, credit out of the savings they have accumulated. So we give out loans for all purposes, business, education, housing, health and you would not believe it; people think Africans need money to establish businesses, no. 30% of the loans we give go into education, 25% into business, 20% into housing and 15% into agriculture and the balance go into death, burial and other social functions. So people just decide to think for the poor people, that they are looking for money to establish businesses, but the poor needs more than just establishing businesses. They do not need loanable funds, they need financial services.''*

The results in Table 11 show the relationship between the motivation of the MFI to grow and empower the poor and the sustainability of the MFI. It can be observed that whilst the majority (50.9%) of the MFI's who were motivated to grow and empower the poor were perceived as sustainable, and those MFI's who were not motivated to grow and empower the poor were perceived as not sustainable. Eight (8) MFIs were perceived as not sustainable but were motivated to grow and empower women. The chi-square test yielded X^2 =22.05, df=3, p<0.05. This means that there was a significant relationship between the motivation of the MFI to grow and empower the poor and the sustainability of the MFI. Thus, those MFI's who were motivated to grow and empower the poor were not likely to collapse. Therefore at the 0.05 level, *the hypothesis that if* *the motivation of the MFI is to grow and empower the poor is high then sustainability activities will significantly increase was supported.*

One Chief Executive Officer like all the others had this to say; when asked about his motivation for setting up a microfinance institution,

> *"I was once a consultant for the Government Poverty Reduction Strategy (GPRS 1 and 2) and during our research we realized that microfinance really goes a long way in alleviating poverty. We realized that the banked population of Ghana is 20% and the non-banked 80%. And we also realized that if the non-banked is 80% and microfinance is something that can reach out to them on the field and not wait for them to come, we took advantage of that to go to the field to the people who really need savings and loans."*

The interview responses showed that almost all the Chief Executives were motivated by the fundamental principle underlying the microfinance movement, which is poverty alleviation and empowerment through the provision of tiny loans especially among the rural poor.

4.4. Clientele type

The results in Table 6 show that close to half of the MFI's had traders and farmers as their clients. The clients of the MFI's were made up of a high representation of urban traders (50.9%) with the least representation being rural traders (1.7%). It can also be observed that generally the MFI's had more rural clients (59) than urban clients (55) and the dominant clientele were traders who alone accounted for about a quarter (25.4%).

The apparent preference of traders by MFIs and also their visible presence in the urban areas (48.25%) as opposed to the rural areas (51.75%) could be due to their sensitivity of risk and repayments difficulties. The urban clients are perceived to be of high risk. This was echoed by one of the Chief Executives during the qualitative interview stage when he said:

> ''*You see over the years we have come to realize that the rural terrain is difficult to manage in terms of cash mobilization and repayments due to the extreme poverty prevailing there. Again in the rural areas their main business is farming which also depends on the weather which cannot be predicted with certainty. So we try to balance this risk with other ventures we consider less risky*''

The sustainability and success of MFI's to some extent depends on the ability of the clients to pay back their loans. As a result MFI's prefer clients whose economic activities were less risky and predictable. It is therefore not surprising that the majority of MFIs is pro-urban rather than pro-rural; and also prefer urban traders to clients (such as farmers) whose economic activities are unpredictable and depended on natural environmental or weather conditions. This is aptly captured by Zeller and Meyer (2002, pp2) " competition is increasing from the banks and finance companies entering microfinance, mostly seeking out the wealthier clientele groups in urban areas". Von Pischke (1991) also stated that small farmers were the primary concern in the 1960s and 70s; the poor emerged as the focus in the 1980s and 90s.

Lending to traders alone accounted for over a quarter (25.4%) of the responses on the clientele type of the MFIs. The results in Table 12 further show that a little over half of the MFIs who were perceived as sustainable were those who lend to traders (27.4%). There were eight (8) MFIs who were perceived as not sustainable and who had farmers and traders as their clientele. A cursory look at the results also shows that traders were the dominant clientele of the MFIs. The test results revealed that sustainability was significantly (X^2=21.12, df=7, p=0.012) tied to the clientele type (specifically traders). Therefore at the 95% significance level, *the hypothesis that if MFI's lending to urban traders is high then sustainability factors will significantly increase was supported.*

4.5. Access to alternative sources of funding of MFI's

Funding is critical to the activities of micro finance; and it is therefore necessary that MFIs have access to other sources of finance well after their startup for sustainability. The researchers therefore asked the MFI's whether they had access to alternative sources of funds. In response whilst 85 (74.6%) affirmed that they had other sources of funds, 29 (25.4%) stated that they had no alternate sources of funding. Thus the majority of the MFIs had access to alternative sources of finance apart from their startup capital.

In developing countries, access to capital and funding for business operation has long remained a crucial factor to the performance and sustainability of businesses. And for an MFI, access to large capital base, will obviously impact positively on the level and depth of outreach.

The results in Table 13 show that 72.6% of the MFIs who had access to alternative source of finance were perceived as sustainable. Also, all the MFIs who had alternative sources of funds and yet believed that they were not sustainable (8); was probably due to uncertainty about their continuous donor funding. The test results revealed that sustainability of MFI was not significantly dependent on access to alternative sources of finance (X^2=2.94, df=1, p=0.087). Thus, at the 95% significant level*, the hypothesis that if funding of MFI's increase, then their sustainability will significantly increase was not supported.*

4.6. MFI's Information Gathering

It appears the MFIs had adequate information about their clients. In response to the question as to how much information the MFIs had about their clients, 58.8% indicated enough, 19.3% intimated that they had a lot of information whilst 21.9% stated they had enough information about their clients. Thus, the majority of the MFIs had adequate information about their clients.

On how they obtained information about their clients, 100 (88.0%) of the MFI's indicated that they do so through visit and from the group members which the clients belong. Only 5 (4.0%) stated that they obtained information on their clients through personal volunteering by the clients (see Table 8).Thus the use of group collaterals guaranteed the MFI's access to adequate information about their clients. This is how one Chief Executive Officer responded to the question of how they obtain information about their clients:

'' As part of the feasibility studies, we sometimes go to market queens, chiefs, opinion leaders and the clients themselves. When we talk to them they are able to come up with some few tips or they may even direct you to somebody who will have certain information about certain people.''

The quality of information gathered by MFI's on their clientele help in determining borrower characteristics, risk projection, loan monitoring and verification of the level of returns on credit facilities granted to the clients. The information gathering processes and verification procedures of MFI's are therefore very crucial since it is the first and main source of contact between the MFI's and their clients. Thus, it behoves on the client to provide very detailed information about themselves when accessing credit facilities. It is equally important that the MFI's have very robust procedures or mechanisms for verifying the information provided by their clients.

Clearly, the majority (63.2%) of the MFIs who obtained enough information about their clients were perceived as sustainable. Also the entire MFIs (100%) who obtained just enough information about their clients were perceived as not sustainable (Table 14). The test results revealed that sustainability was significantly dependent on adequacy of client's information (X^2 =30.63, df=2, p=0.000). Therefore at the 95% significance level, *the hypothesis that if MFI's obtain enough information about their clients, then sustainability factors will increase was supported.*

5. Discussion of findings

This study was based on institutional characteristics of institutions engaged in microfinance: ownership, more funding, motivation for setting up, lending, alternative funding and information gathering. The various hypotheses relating to institutional characteristics were also tested and the results are tabulated in appendix A, Table 15.

On ownership of MFIs, it became evident that ownership type was not extremely important in determining the sustainability of MFIs (X^2=0.664, df=2, p>0.05) and this is at variance with the position stated by Ledgerwood (2006) when she stated that ownership is critical in the governance, strategic direction, institutional culture, management, policies and procedures of MFIs. The research identified ownership as mainly foreign investors (58.8%) which are mostly the FNGOs who were mostly perceived as sustainable. During the exploratory research the respondents stressed managerial competence over ownership and did not bother about whom and where the ownership is coming from.

On whether committing more funds will ensure sustainability majority (83.0%) agreed that it will lead to sustainability. This revelation appears to sharply contradict the recent survey of CGAP/MIX (2004) cited in Ledgerwood (2006) which suggest that MFIs generally perceive the lack of funds as the greatest constraint to growth. Perhaps the prudent use of the little funds available and employing all the known techniques in microfinance such as good information on clients, effective screening mechanisms (to weed out 'bad' clients), regular meetings with clients to know and fashion out innovative products to satisfy their needs, peer monitoring, group lending, and rotating savings and credit associations (ROSCAS) will ensure sustainability.

The single most dominant clientele were traders (25.4%) even though all the MFIs agreed it was a more favoured area and critical for sustainability. From these statistics, it appears most Chief Executives preferred urban traders (50.9%) as clients whose businesses were less risky compared to poor rural farmers and fishermen who depended mostly on unpredictable weather patterns. This position appears to be a shift from the microfinance movement where the concentration was on the rural poor especially the farmers. However, in recent times there appears to be a critical mass of urban poor and therefore it does not matter where the poor resides, the idea of poverty reduction or eradication still holds. Sensitivity to risk could also be a factor for the preference to the urban traders.

Good quality information on clients was perceived as critical and this position is supported by Churchill (1999). Lack of good quality information may translate into high default rate which will ultimately lead to the collapse of the MFI. The literature on Grameen Bank indicated that they had a lot of funding from external sources like IFAD, Ford Foundation, the government of Bangladesh, Sweden, Norway and the Netherlands and was largely able to sustain their operations. On the contrary, alternative source of funding did not appear to be critical to the sustainability of MFIs in this research and therefore was not supported. The claim was that the quantum of funding does not necessarily translate into sustainability.

While the results reveal that ownership, committing more funds and alternative source of funding do impact on sustainability of MFIs, this is to a lesser extent as compared to the other three factors (motivation to grow, clientele type and good quality information). This suggests that an MFI that focuses more on motivation to grow, chooses the type of clientele who will ensure consistent and regular repayment of loans and designs effective methods to derive good quality information on their clients is likely to survive long into the future.

6. Conclusion and recommendations

The study investigated the institutional characteristics of MFIs using data from 130 MFIs. Using a mixed method, exploratory and questionnaire survey the study investigated the sustainability of their operations via institutional characteristics. The results of the study should inform management about the steps to take in order that institutional characteristics and client's information are effectively managed so as to ensure the sustainability of their institutions.

On the impact of the institution's characteristics on sustainability, the results supported hypotheses on motivation to grow, lending to urban traders and good quality information. Managers of MFIs must understand the difficulties involved in microfinance delivery and adopt prudent measures including the use of modern technology to enable the institution to grow. An institution that does not learn and adapt to changing technology can face a slow death. The study supported lending to urban traders as a sustainability factor. Of all the types of clients in the microfinance delivery, traders appear the most dominant. This is because they are classified as less risky and able to sell their wares quickly in the market and pay back their loans. Good quality information is critical for the sustainability of MFIs. Lack of adequate and reliable information on the depth and breadth of outreach remains a challenge to the industry. These problems adversely affect the ability to properly target the right clients in order to meet the specific needs of such clients.

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Appendix A

2. Table 2 Sample Frame Analysis

Institution	Qualitative interview Number of Executives	Survey	Total
Financial NGO	5	84	89
Savings & Loans Co.	3	9	12
Credit Union Assoc.	2	3	5
Rural Banks	2	18	20
Susu Companies	2	2	4
Total	**14**	**116**	**130**

3. Table 3: Ownership of the MFI's

Ownership	Frequency	Percentage
Foreign	67	58.8
Local	29	25.4
Both foreign and local	18	15.8
Total	114	100.0

4. Table 4: Geographical Spread of the MFI's

Regions	Number of MFIs	Percentage
Greater Accra	33	28.9
Central	10	8.8
Western	10	8.8
Eastern	12	10.5
Ashanti	15	13.2
Northern	19	16.7
Volta	15	13.2
Total	114	100.0

5. Table 5: Reasons for establishing MFI's

Reason for establishment	Frequency	Percentage
Business development	16	14.0
Economic empowerment of rural dwellers	54	48
To help women	32	28
Provide training in SME	12	10
Total	114	100

6. Table 6: Type of Clients of the MFI's

Type of Clients	Rural	Urban	Total
Farmers	9 (15.3%)	-	9 (7.9%
Farmers and traders	22 (37.3%)	13 (23.6%)	35 (30.7%)
Farmers, traders & artisans	8 (13.6%)	-	8 (7.0%)
All types of clients	10 (16.9%)	-	10 (8.8%)
Traders	1 (1.7%)	28 (50.9%)	29 (25.4%)
Traders and artisans	-	10 (18.2%)	10 (8.8%)
School youth savings clubs	-	2 (3.6%)	2 (1.8%)
Government Employees/other salaried workers	9 (15.3%)	2 (3.6%)	11 (9.6%)
Total	59 (100%)	55 (100%)	114 (100%)

7. Table 7: Volume of information on clients

Volume of information	Frequency	Percent
Just Enough	25	21.9
Enough	67	58.8
A lot	22	19.3
Total	114	100.0

8. Table 8: Source of information on clients

Source of information	Frequency	Percent
Personal volunteering	5	4.0
Visit to clients and group members	100	88.0
Other sources (opinion leaders, etc)	9	8.0
Total	114	100

9. Table 9: Type of MFI ownership and sustainability of MFI

Type of MFI ownership	Sustainability of MFI		Total
	Yes	No	
Local	26 (24.5%)	3 (37.5%)	29 (25.4%)
Foreign	63 (59.4%)	4 (50.0%)	67 (58.8%)
Both	17 (16.0%)	1 (12.5%)	18 (15.8%)
Total	106 (100%)	8 (100%)	114(100%)

X^2=0.664 , df=2, p=0.718

10. Table 10: Propensity to commit more funds to lending and sustainability of MFI

Propensity to commit more funds to lending	Sustainability of MFI		Total
	Yes	No	
Yes	88 (83.0%)	8 (100%)	95 (84.1%)
No	18 (17.0%)	-	18 (15.9%)
Total	106 (100%)	8 (100%)	114 (100%)

X^2=1.631, df=1, p=0.202

11. Table 11: Motivation to grow and empower the poor and sustainability of MFI

Motivation for setting up MFI	Sustainability of MFI		Total
	Yes	No	
Business development	16 (15.1%)	-	16 (14.0%)
Poverty alleviation	54 (50.9%)	-	54 (47.4%)
To help women	24 (22.6%)	8 (100%)	32 (28.1%)
Provide training in SME	12 (11.3%)	-	12 (10.5%)
Total	106 (100%)	8 (100%)	114 (100%)

X^2=22.05, df=3, p=0.05

12. Table 12 Clientele type and sustainability of MFI

Type of clients	Sustainability of MFI		Total
	Yes	No	
Farmers	9 (8.5%)		9 (7.9%)
Farmers and traders	28 (26.4%)	8 (100%)	36 (31.6%)
Farmers, traders & artisans	8 (7.5%)	-	8 (7.0%)
All	10 (9.4%)	-	10 (8.8%)
Traders	29 (27.4%)	-	29 (25.4%)
Traders and artisans	10 (9.4%)	-	10 (8.8%)
School youth savings clubs	2 (1.9%)	-	2 (1.8%)
Government Employees/other salaried workers	10 (9.4 %.)	-	10 (8.8%)
Total	106 (100%)	8 (100%)	114 (100%)

X^2=21.12, df=7, p=0.012

13. Table 13: Access to alternative source of finance and sustainability of MFI

Access to alternative source of finance	Sustainability of MFI		Total
	Yes	No	
Yes	77 (72.6%)	8 (100%)	85 (74.6%)
No	29 (27.4%)	-	29 (25.4%)
Total	106 (100%)	8 (100%)	114 (100%)

X^2=2.94, df=1, p=0.087

14. Table 14: Adequacy of clients' information and sustainability of MFI

Adequacy of clients' information	Sustainability of MFI		Total
	Yes	No	
Just enough	17 (16.0%)	8 (100%)	25 (21.9%)
Enough	67 (63.2%)	-	67 (58.8%)
A lot	22 (20.8%)	-	22 (19.3%)
Total	106 (100%)	8 (100%)	114 (100%)

X^2=30.63, df=2, p=0.000

15. Table 15: Listing of significant and non-significant hypotheses

Hypothesis	Path ***Institutional characteristics → Sustainability of MFI***	P value	Sig	Results
HIA	Ownership of institution→ *sustainability of MFI*	**0.718**	p>0.05	Not supported
HIB	More funds for lending→ *Sustainability of MFI*	**0.202**	p>0.05	Not supported
H1C	Motivation to grow business.→ *Sustainability of MFI*	**0.000**	p<0.05	Supported
H1D	Lending to Urban traders→ *Sustainability of MFI*	**0.012**	p<0.05	Supported
H1E	Increase funding→ *Sustainability of MFI*	**0.087**	p>0.05	Not supported
H1F	Good quality information→ *Sustainability of MFI*	**0.000**	p<0.05	Supported

Appendix B Table 1: Institutional Characteristics

Name of institution	**ownership**	**Geographical spread**	**motivation**	**clientele**	**funding**	**Information gathering**
FNGO 1	Foreign	Five regions and ten districts. We have a fund springing up in the E/R.	To eradicate poverty and hunger in partnership with rural community	Farmers, but we try to balance the risk with others	Foreign revolving capital	Through group leaders and project officers
FNGO 2	Foreign and local	Three regions	First to finance the church, but now empowering	Traders	Foreign capital and local borrowing	During training and application forms

			people through MF to rise to their God given potentials			
FNGO 3	Foreign & Local	Ten regions	To bring financial services to the economically active	Traders	Borrowing from the international and local market	Sourced from markets queens, chiefs, opinion leaders and from the people themselves
FNGO 4	Local and foreign	Eight regions	Empower people economically	Farmers, traders, artisans, fishermen	Borrowing from the local market	From the community by field officers
FNGO 5	Foreign	One region	To help small businesses	Traders	Grants and subsidies	By interviewing them and cross checking with application forms
S&L 1	Foreign	Five regions	To transform the economically active into sustainable livelihood	Traders	Equity and debt	From loan officers and other reliable sources
S&L 2	Foreign	Four regions	To encourage people to save to get out of poverty	Traders, artisans, farmers and workers	Foreign capital but now self-dependent	Loan officers
S&L 3	Foreign and local	Four regions	To provide credit to businesses	Traders, tailors, food vendors, garage owners	Foreign and local	Through interviews
CUA 1	Local	Ten regions	To use savings as the basis for human development	All forms of businesses, and personal loans	Foreign subsidies and grants but now self-funding	Through the loan officers
CUA 2	Local	One region	To give people the opportunity to save and borrow	Staff members	From members own savings	Through interviews
RB 1	Government	One region	To bring banking near to the community	All forms of businesses	Government	Field officers

RB 2	Government	One region	To help advance loans to rural folk	Workers, traders, teachers, and student nurses	Government	From the community and field officers
SUSU 1	Sole proprietor	Two regions	To bring banking to the unbanked and the downtrodden	Traders, corporate farmers	Family capital	Field officers
SUSU 2	Sole proprietor	One region	Help in savings mobilization	Traders	Personal capital	Field officers

Appendix C. Microfinance Impact Studies: Asia

Study	**Coverage**	**Methodology**	**Results**
Hulme and Mosley (1996)	Indonesia (BKK, KURK, BRI), India (Regional Rural Banks), Bangladesh (Grameen, BRAC, TRDEP), Sri Lanka (PTCCS)	Borrowers and control Samples, before and after.	Growth of incomes of borrowers always exceeds that of control group. Increase in borrowers' income larger for better-off borrowers.
MkNelly et al (1996)	Thailand (village banks-Credit with Education)	Non-participants in non-Program villages used as Controls	Positive benefits, but no statistical test for difference reported
Khandker (1998)	Bangladesh (Grameen, BRAC)	Double difference comparison between eligible and ineligible households and between program and non-program villages	5% of participant households removed from poverty annually. Additional consumption of 18 taka for every 100 taka of loan taken out by women.

Pitt and Khandker (1998)	Bangladesh (BRAC, BRDB, Grameen Bank)	Double difference estimation between eligible and non-eligible households and programs with and without microfinance programs. Estimations are conducted separately for male and female borrowing.	Positive impact of program participation on total weekly expenditure per capita, women's nonland assets and Women's labor supply. Strong effect of female participation in Grameen Bank on schooling of girls Credit programs can change village attitudes and other village characteristics.
Coleman (1999)	Thailand (village Banks)	Double difference comparison between participant and non-participant households and between villages in which program introduced and villages where not yet introduced	No evidence of program Impact. Village bank membership no impact on assets or income variables.
Chen and Snodgrass (2001)	India (SEWA Bank)	Control group from same geographic area	Average income increase rose for bank's clients in comparison with control group. Little overall change in incidence of poverty, but substantial movement above and below poverty line.
Coleman (2004)	Thailand (village Banks)	Double difference estimation between participants and non-participants and villages with and without Microfinance program	Programs are not reaching the poor as much as they reach relatively wealthy people. Impact is larger on richer Committee members rather than or rank-and-file members.

Showing Microfinance Impact Studies: Latin America

Study	**Coverage**	**Methodology**	**Results**
Hulme and Mosley (1996)	Bolivia BancoSol	Borrowers and control samples, before and after. Retrospective assessment of incomes	Growth of incomes of borrowers always exceeds that of control group. Absolute increase in borrowers' income larger for better-off borrowers.
Mosley (2001)	Bolivia BancoSol ProMujer, PRODEM and SARTAWA	Borrowers and control samples, before and after. Time series data for BancoSol only; for other retrospective assessment of incomes.	Growth of incomes and assets of borrowers always exceeds that of control group. Increase in borrowers income larger for better-off borrowers. No evidence of impact on 'extreme poverty'
Banegas et al (2002)	Ecuador, Banco Solidario and Bolivia, Caja de los Andes	Logit model. Control groups selected from households working in the same sector but with no loans from other institutions.	Being a client of a program is associated with rising incomes.
Dunn and Arbuckle (2001a, 2001b)	Peru, Mibanco	Longitudinal study using 'analysis of covariance' methodology; control group based on non-participants with similar observable characteristics to participants. Focus on microenterprises.	Microenterprises of participants found to have substantial increases in net income, assets and employments relative to those of non-participants. Positive impact on poverty reduction with incomes in participating households rising relative to control group. Poor participants more likely to sell assets in face of a shock than control households.

MkNelly and Dunford (1999)	Bolivia, Credit with Education program	Longitudinal study of comparison with baseline for nutritional data. Control group of communities who would be offered same program two years later.	No evidence of improvements in household food security or nutritional status of client's children relative to the control group.

Source: ADB Institute Discussion Paper No. 15 Sept 2004