

**A COMPARATIVE STUDY OF THE CREDIT WITH EDUCATION (CWE) AND  
THE VILLAGE SAVINGS AND LOANS (VSLA) METHODOLOGIES OF  
MICROFINANCE SERVICES ON RURAL LIVELIHOODS**

**BY**

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## DECLARATION

I, Aaron Adongo Alerigesane, do hereby declare that, with the exception of my reference to other people's work which have been duly acknowledged, the work contained in this thesis, "*A Comparative Study of the Credit with Education (CWE) and the Village Savings and Loans Associations (VSLA) Methodologies of Microfinance Services on Rural Livelihoods*" is the result of my research carried out under the supervision of the Department of Agricultural Extension, College of Agriculture and Consumer Sciences, University of Ghana, Legon, from August, 2011 to October, 2012. I further declare that this thesis work, either in whole or in part, has not been presented for another degree in this University or elsewhere.

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## DEDICATION

This work is first and foremost dedicated to my sweet Mum Margaret Abaane through whom Jehovah gave me life and which she zealously protected to date. To my late Dad, J.B. Alesane, though you rest in perfect peace in the bosom of the Lord, this work is dedicated to you too for it is your feet I continue to dance into the future.



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## ABSTRACT

The study was set up to compare the Credit with Education (CwE) and the Village Savings and Loans (VSL) methodologies of microfinance services and how they influence rural livelihoods. The field survey methodology was involving both qualitative and quantitative approaches. Common services (financial and non-financial) offered to client groups in both the VSL and CwE models as implemented by Plan Ghana-an international non-governmental organization (INGO) and partner local non-governmental organizations (LNGOs) in the case of the former and the latter by the Bawjiase Area Rural Bank (BARB) in the Awutu district of the Central Region of Ghana. It then assessed in comparative terms the influence of these microfinance models on clients' livelihood strategies and activities, the resulting outcomes and ultimately their impact on clients as search for livelihood. In all 202 respondents were sampled, one hundred and one in each category and the data collected in the month of March, 2012.

Descriptive statistics were mostly employed for the analysis of the data. The study found that apart from the financial intermediation, social intermediation services such as enterprise development, gender trainings, reproductive health, diarrhea prevention and management in children and infants, importance of breastfeeding, infant and child feeding, HIV/AIDS prevention, malaria prevention and management and family planning were offered in both programmes.

In all, services such as gender trainings; agro-forestry practices and cottage industry as livelihood strategies; and livelihood outcomes including enterprise expansion, bulk purchase for cost reduction, accessing cheaper credit sources, initiating new enterprises, selling in new markets, investment in structures for marketing and production, clients preferred places of savings, amounts saved, calculation of profits based on costs and earnings, having fixed location for sales and production purposes, allowing credit sales, household diet characteristics and perception of limited credit availability all showed significant differences between the CwE and VSL clients and by extension groups. Overall, the study found that the programmes had positive influences on clients' livelihood strategies and activities, the outcomes of those strategies and activities and the eventual impact.

The study recommends that topical issues such as gender that alter power relations within households positively, food security that innovatively link households of programme participants directly into food chains with long term positive effects on nutrition of children in particular and the incorporation of health products such as the NHIS should be intensified in programmes. Also, programmes such as the VSL contemplating linking groups to formal microfinance institutions (MFIs) and/or commercial banks should assess the repayment capacities of groups incrementally, and credit extended accordingly in order to avoid defaults and promote sustainability.

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## LIST OF ACRONYM

ASCA	Accumulating Savings and Credit Associations
CA	Credit Associations
BARB	Bawjiase Area Rural Bank
CARE	Cooperative for Assistance and Relief Everywhere
CBFOs	Community-Based Financial Organizations
CBOs	Community-Based Organizations
CGAP	Consultative Group to Assist the Poorest
CMLF	Community-Managed Loan Funds
CMLF	Community Managed Revolving Fund
CMRLF	Community-Managed Revolving Loan Funds
CwE	Credit with Education
DFID	Department for International Development
FGD	Focus Group Discussions
IFAD	International Fund for Agriculture Development
MFI	Microfinance Institutions
RLF	Revolving Loan Fund
RMFIs	Rural Microfinance Institutions
ROSCAs	Rotating Savings and Loan Associations
SCA	Savings and Credit Associations
SHGs	Self-Help Groups
SLA	Savings and Loans Associations
VB	Village Banking
VSL	Village Savings and Loans
VSLA	Village Savings and Loans Associations

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background**

Many development practitioners, academicians, development institutions and organizations including International Non-governmental Organizations believe bringing reliable financial services to the world poor will depend on the growth of permanent institutions that are sustainable in both outreach and financially. According to Allen (2002) most of these institutions would be formal, for-profit service providers that target low-income clients but otherwise behaving like conventional banks. These institutions may also be mutually owned such as credit unions of the poor that are fostered by promoters of user-owned self-help savings and loans groups. Either way, the watchword is permanence (Rutherford, 2002).

#### **1.2 Concern Area**

Sinha (1998:32-33) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)”. Microcredit is a component of microfinance in that it involves providing credit to the poor whereas microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (*Ibid*).

The Millennium Development Goals (MDGs) focuses the development agenda worldwide on reducing extreme poverty as well as improving health, education and human rights by 2015. The emergence of microfinance and microcredit as an integral part of the new development paradigm, it is believed could contribute significantly to the achievement of these laudable goals. For instance, Jan and Maes (2012) reported

that as of December 31, 2010, 3,652 microfinance institutions reported reaching over 205 million clients. From this number, over 137 million was among the poorest when they took their first loan. Of these poorest clients, 82.3 per cent were women. Microcredit is not only provided in poor countries, but also in one of the world's richest countries, the USA, where 37 million people (12.6%) live below the poverty line (CIA). The UN declared 2005 as the International Year of Microcredit. In spite of this huge popularity, microcredit and microfinance remain very controversial conceptions. For instance, Gina Neff of the Left Business Observer has described the microcredit movement as a privatization of public safety-net programmes. She postulates that enthusiasm for microcredit among government officials as an anti-poverty programme can motivate cuts in public health, welfare, and education spending (The Left Business Observer #74, October, 1996). Neff maintains that the success of microfinance has been judged disproportionately from the lender's perspective (repayment rates, financial viability) and not from that of the borrowers. Thus, the contributions of microcredit and microfinance as well as their effects on Third World poverty are increasingly being examined.

Both credit and savings, however, are showing evidence of helping to alleviate poverty such as helping households manage their financial portfolios in smoothing consumption and investing in enterprises.

Although, over the past decades the microfinance sector grew substantially with the promise of helping to reduce poverty, existing and past programs and institutions have not been able to deliver on that promise (Morduch, 1999). It is thus becoming increasingly clear that the microfinance revolution may not be enough for the task of reaching the millions of the world's financially excluded with the least financial

resources and additional innovations are required. The trend in these innovations thus is the combination of microcredit with other non-financial services including business training (Dunford, 2002).

Therefore, novel models of micro credit extensions that effectively combine financial and social intermediations that synergistically leverage one another is fast gaining grounds. However, the extent to which these models are also effectively and efficiently meeting both outreach and sustainability goals as well as improvements of clients' livelihoods are currently being studied by academicians and practitioners alike.

### **1.3 Problem Statement**

In most parts of the world it is still too costly to extend regulated savings services to people living in remote areas. It is in these areas that “savings led” microfinance has taken root, where informal savings groups are effective in providing needed financial services. It is argued that the “credit-led” microfinance industry is not equipped to reach the hundreds of millions of people with the least financial resources (CARE, 2011). For instance, a comprehensive market research conducted by Wyman (2008), compares microfinance supply versus potential demand based on a segmentation of the world's poor by primary livelihood. The study estimates that, of the 1.6 billion working-age poor people (those living on less than \$2 a day); only about 11.25% have a microenterprise as their main livelihood source. A much larger group of poor adults, 38% are dependent on farming as their primary livelihood and 5 per cent are pastoralists or fishermen. The unemployed and casual laborers account for 21%, and the remaining 300 million are low-wage salaried employees (Ibid).

Modeled after traditional rotating savings and credit groups, “savings –led” microfinance models such as the Village Savings and Loans (VSL) and Credit with Education (CwE) groups receive training to improve transparency, democratic functions, safety, and general management.

The Credit with Education (CwE) methodology necessitates the organization of women into Credit Association. Group membership usually between 20 and 30 participate in several trainings during which savings deposits are made and group dynamics and management are learned. The trained credit association then receives a group loan, which it then on-lends to members as individual loans to finance income-generating activities (IGAs). The members guarantee repayments of one another’s loans. The loan duration typically ranges between 4 and 6 months. Members repay the loans in regular installments with interest and also make savings deposits during weekly, monthly, or bi-monthly meetings.

The Village Savings and Loans Associations (VSLA) on the other hand, are forms of community-based financial organizations (CBFOs) that are self-managed usually with no external funding. The primary focus of the concept is on savings, asset building, and the provision of credit proportionate to the needs and repayment capacities of the borrowers. VSLAs have the potential to raise the self-respect of individual members and build social capital within communities with particularly women who represent approximately 70 per cent of members.

There are however, mixed reactions within the microfinance community (academics, practitioners and investors), at least within Ghana, when it come to how these “savings led” models best serve the needs of different categories of clients and their influence on rural livelihood strategies and outcomes especially in the achievement of

these Millennium Development Goals (MDGs). These mixed reactions arises out of the general challenges of the microfinance industry such as the high interest rates charged to borrowers; the focus on institutional performance instead of improvements in client livelihoods; increased suicide due to over-indebtedness, market saturation, business creations without growth, multiple borrowing and poor incorporation of non-financial services among others. Some even point out that the microcredit movement represents the privatization of public safety-net programs that can motivate cuts in public health, welfare, and education spending from central governments. In addition, various studies have pointed out that microfinance is not a magic wand. It does not automatically lift poor people out of poverty with access to credit being only a first step in the poverty alleviation process.

In Ghana, there are limited if any empirical comparative studies of how these “savings led” microfinance models such as the VSL and CwE influence rural livelihoods. The study therefore sought to comparatively assess the VSL (as implemented by Plan Ghana-an INGO and partner local non-governmental organizations) and the CwE (also been implemented by the Bawjiase Area Rural Bank) in the Awutu district of the Central Region of Ghana and how they affect the livelihood strategies, outcomes and the resulting impact.

#### **1.4 Research Questions**

The questions thus posed in order to enable this comparative assessment are:

1. How different is the VSL and the CwE in terms of their trainings/educational sessions on clients livelihoods?
2. Are the outcomes of these non-financial educational trainings significantly different between clients of the VSL and the CwE?

3. How different are the impacts of the VSL and CwE clients?

### **1.5 Research Hypothesis**

H<sub>0</sub>: There are no significant differences between the educational trainings of the VSL and the CwE on clients' livelihoods.

H<sub>0</sub>: There are no significant differences in the livelihood outcomes of clients of the VSL and CwE.

H<sub>0</sub>: The impact of the VSL and the CwE on rural livelihoods are not significantly different.

### **1.6 Objectives of the Study:**

The primary objective of the study is to assess the methodologies of the VSL and CwE that combines the extension of both financial and social intermediations on client's livelihood strategies, outcomes and impact.

The specific objectives are:

1. Compare and contrast the social intermediation services offered among VSL and CwE groups.
2. Examine how the social intermediation services affect the livelihoods strategies of clients of both groups.
3. Compare and contrast the livelihood outcomes of clients of the VSL and CwE groups.
4. Compare and contrast the impact of the financial intermediation services on the livelihoods of the VSL and CwE groups.

## 1.7 Justification of the study

Of the more than 1 billion poor people in the world today, the great majority of whom are women, live in unacceptable conditions of poverty, mostly in the developing countries (IFAD, 2011). Their lack of physical collateral and the perception of banks that lending to them is risky and costly are major challenges that limit access to formal financial services by a majority of the world's poor. As a result, the rural financial market has for a long time been dominated by informal financial intermediaries (Jones, et al. 1999). It is also been increasingly acknowledged that making productive resources accessible to the poor can help reduce the level of poverty. Thus, governments, donor agencies and private investors the world over are actively collaborating in making financial services accessible and affordable to rural households and micro entrepreneurs through the use of innovative methodologies that effectively provide both financial and non-financial services such that the latter leverages the former.

For instance, among the organizations reporting in 2011, data from 328 institutions verified indicated that approximately 72,385,972 poorest families was reached with financial services. This implied if an average client family consisted of five members, it meant 137.5 million poorest loan receivers affected a total of 687.7 million people (Micro Credit Summit Report, 2011). This represents more people than the total population of the European Union plus Russia. Although microfinance is no longer micro in its reach, poverty still persists (*Ibid*).

Furthermore, women constitute the greater percentage of the marginalized in society who most often do not have access to financial services (Opare, 2005; Jones and Sakyi-Dawson, 2002; Duncan, 1997). Studies have also shown that, improving women's access to financial services particularly credit is an important step towards

poverty reduction (Littlefield, Murdugh and Hashemi, 2003). Since “savings-led” models of microfinance extension such as the Village Savings and Loans and the Credit with Education have women as their main target, the identification of factors that promotes sustainability of programme would likely contribute to policy and programme design. Their replication thereof towards poverty alleviation in areas with similar geographical, demographical, and socio-cultural and economic indicators cannot be underestimated.

The comprehensive assessment of how these “savings-led” microfinance models related to groups livelihood strategies, outcomes and hence impact is expected to support the documentation of best practices that would have wider application in poverty reduction strategies of governments as advocated by the World Bank (Roe, 2008) and the achievement of the Millennium Development Goals (MDGs).

In addition, the study explored the depth of reach of microfinance using these models on the livelihoods of poorer clients, a major challenge in the microfinance industry.

Lastly, but not the least, the study provided a basis to ascertain whether or not the adoption of these models by rural and community banks in Ghana would improve outreach and sustainability goals. Thus, it provided a better view of how development equations in marginalized communities could be altered by rolling out innovative microfinance models such as the VSL and the CwE in providing poor micro entrepreneurs the means to cope with emergencies, build capital and recreate social and economic dynamics that support genuine self-reliance.

## **1.8 Organization of the Study**

The study is organized into five chapters. Chapter two reviews relevant literature related to the study. Chapter three presents the methodology of the study including population, sample size, and methods of analyses. Chapter four presents the results and discussions of the study whilst the summary, conclusions and policy recommendations are presented in chapter five.

## CHAPTER TWO

### CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

#### 2.1 Introduction

The chapter presents a conceptual framework based on the sustainable livelihood framework of Carney, (1998) and the UK Department for International Development, (1999) and explanation of its relevance to the present study. The chapter then went on to review literature on the sustainable livelihood approach, the various micro lending methodologies (both individual and group/peer), their operational structures, the various approaches to group lending and their relevance to search for livelihoods. The chapter then went on to present literature on theories of microfinance and their relevance to rural livelihoods, the nature of rural financial markets, financing rural livelihoods strategies and innovations in financing rural livelihood strategies. Finally, literature was reviewed on the impact of microfinance on rural livelihoods, women empowerment and profitability of service providers are also presented.

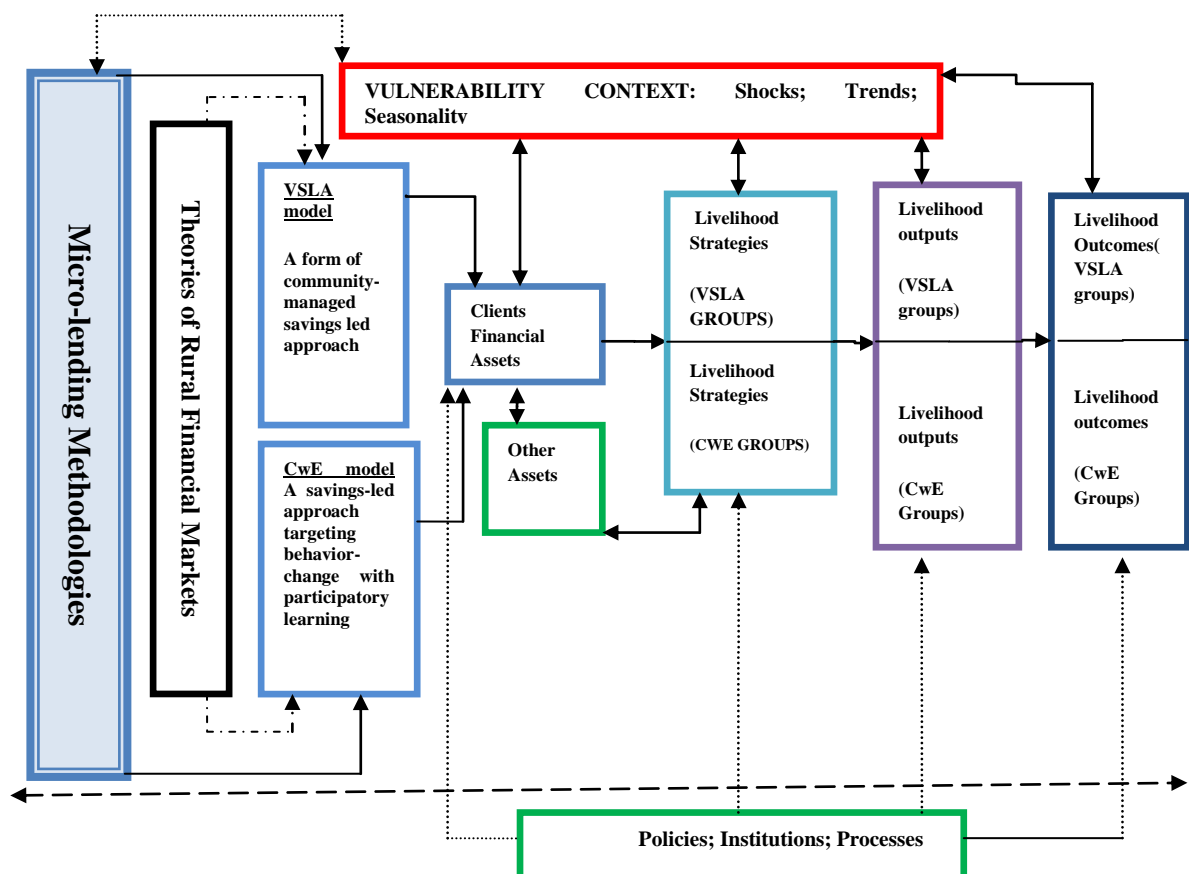
#### 2.2 Conceptual Framework

According to Miles and Huberman (1994:14), “a conceptual framework explains either graphically or in a narrative form, the main things to be studied- the key factors constructs or variables and the presumed relationships among them”. Usually expressed abstractly through word models, a conceptual framework is the conceptual basis for many theories”.

From figure 2.1, clients are exposed to a number of financial services methodologies. Thus, they have the choice to participate in any that they are attracted to based on their needs and perceived expectations. However, the exposure of clients to the Village Savings and Loans (VSL) and the Credit with Education (CwE) models are

considered in this study. The availability of these two methodologies in a broader context influences clients' access to financial resources and its utilization. In effect, the acquired financial assets in the form of credit, influence the other available assets of clients (social, human, natural and physical) that can then be diversified through the various livelihood strategies and activities to decrease vulnerability, support asset building and decrease poverty, while maintaining the local natural resource base (Ellis and Allison, 2004).

**Figure 2.1 Conceptual Framework**



Source: Adapted from DFID's sustainable livelihoods framework (Carney, 1998; DFID, 1999)

Clients and their households' livelihood strategies and activities, however, operate within a context of vulnerability. These include shocks such as droughts, floods, crop/livestock pests and diseases and even death in the family. Trends such as

migration, climate change and declining natural resource-based, inflation, currency devaluations, structural unemployment, technology change, market change and the impact of trade and globalization also negatively influences rural livelihoods. Furthermore, seasonality of such factors as rainfall, prices, and production also widens the scope of the vulnerability. These external factors affect both the asset portfolios and the choices of livelihood strategies available to clients and their households and hence their livelihood outcomes. The resulting impacts on livelihoods are then subjected to uncertainty. Moreover, though not usually thought of, at the background are existing transforming structures at the levels of government, the private sector and civil society. Processes that are embedded in institutions, policies, laws, customs and technologies also exists and are perceived as contributory factors to the vulnerability of livelihoods capabilities.

### **2.3 The Sustainable Livelihoods Approach**

This section presents literature on the sustainable livelihood approach. It starts with the evolution of the concept, the various changes made to it and its application in recent decades.

The concept of sustainable livelihoods appearances in development literature in recent decades can be traced to a working paper from the Institute of Development Studies (IDS) by Robert Chambers and Gordon Conway in 1992. Their paper initially sought to theoretically locate sustainable livelihoods within the actor-oriented approaches to development, the framework of environmental and social sustainability, and the rhetoric of poverty reduction. It incorporated the fundamental idea of capabilities (Sen, 1987), assets (Swift, 1989), equity and sustainability (WCED, 1987) steering away from previously narrow conceptualizations of poverty. Since then, sustainable

livelihoods, livelihood enhancement and diversification have become important tools for poverty reduction and rural development in general. The United Nations Development Program (UNDP) has also differentiated between a job and a livelihood, which are often used interchangeably. A job connotes one particular activity or trade that is performed in exchange for payment. It is also a formal agreement, as manifested by a contract, between an employer and an employee. A job can, however, comprise part of an overall livelihood, but does so only to complement other aspects of a livelihood portfolio. A livelihood, on the other hand, is engagement in a number of activities which at times, neither require a formal agreement nor are limited to a particular trade. Livelihoods may or may not involve money. Jobs invariably do. Furthermore, livelihoods are self-directing and are based on income derived from "jobs", but also on incomes derived from assets and entitlements.

According to Scoones, (2008) the concept have been successfully adopted by a number of different organizations including bilateral, multilaterals, NGOs and research centres and have been adapted to fulfill a wide variety of different practical applications such as increasing food security, poverty alleviation efforts, disaster relief and HIV/AIDS( *Ibid*). Furthermore, they have been applied in biodiversity conservations, development projects and research (Wilder and Walpole, 2008).

According to Chambers and Conway (1992), a livelihood comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living. A livelihood is sustainable which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and that, which contributes net

benefits to other livelihoods at the local and global levels and in the short and long term.

The important works of Sen (1987) form the basis for the inclusion of ‘capabilities’ within the concept of sustainable livelihoods. Thus, the concept of capabilities referring to “being able to perform certain basic functioning, to what a person is capable of doing and being” is contextually dependent (Chambers and Conway, 1992). For instance, the ability to feed oneself, one’s access to commodities, and the length of one’s life, all contribute to one’s capability to function (Sen, 1984). Capabilities can also be construed as the ‘freedom’ of individuals or households to choose pathways and participate in activities that increase their quality of life (*Ibid*).

Chambers and Conway’s definition of sustainable livelihoods also incorporates Swift’s (1989) work on human vulnerability and famine through distinguishing between three types of assets. These are investments, stores and resources and claims. Investments according to Swift include human investments (health, education), individual productive assets (animals, equipment, houses, land), and collective assets (soil, water, irrigation systems). The stores and resources are more tangible assets such as food, stores of value (jewellery, gold), and money and claims are obligatory requests or appeals that can be made on other households, officials, other communities, governments or the international community for resources or assistance. In Swift’s view, assets are built up or invested when production exceeds consumption requirements with the end goal of reducing the vulnerability of households and communities to shocks and stresses.

The most often cited definition of sustainable livelihoods however, emerged from the UK’s Department for International Development in 1998 (Carney, 1998; DFID,

1999). This definition built upon Chambers and Conway's earlier definition and the subsequent work of Rennie and Singh (1996) and Scoones (1998) through adding a natural resource dimension. Thus, a livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (Carney, 1998).

Alongside this definition, DFID has developed the Sustainable Livelihood Framework (SLF) for analyzing sustainable livelihoods. The framework comes with a number of factors that impact on livelihood strategies and outcomes and also emphasizes the numerous relationships between these factors. Central to the Sustainable Livelihood Framework is a pentagon of interchangeable livelihood assets (i.e., natural, social, physical, financial, and human capitals) that can be utilized for achieving self determined outcomes of livelihood strategies in order to reduce the vulnerability of households and communities to shocks, trends, and seasonality. Access to these capitals are then mediated by transformational structures such as levels of government, private sector, civil society and processes as laws, policies, culture, institutions power relations. These transformational structures are also perceived to be contributory factors to the vulnerability of livelihoods. The Sustainable Livelihoods Guidance Sheets outline six core concepts of the framework, which include people-centered, holistic, dynamic, building on strengths, emphasizing micro-macro links, and sustainability. Partially in response to later critiques and discussions, the core concepts grew to include empowerment, responsive and participatory, multi-level,

conducted in partnership, disaggregated (i.e., by gender, household, socio-economic status, race), long-term and flexible (Carney, 2003).

Basing his discussion on rural agricultural communities in Africa, Ellis (2000) examines the topic of livelihoods through the lens of diversification, which he sees as a rural household survival strategy. Livelihood strategies and outcomes according to Ellis are similarly based on a platform of five assets, access to which is modified by social relations such as gender and age; institutions such as rules and customs, tenure and markets and organizations including associations, NGOs, local and state government in a context of trends and shocks. The resultant livelihood strategies comprise a variety of natural resources and non natural-resource based activities that ultimately have effects on livelihood security and environmental sustainability. Ellis and Allison (2004), also suggests that diversification is a positive strategy for decreasing vulnerability, supporting asset building and decreasing poverty, while maintaining the local natural resource base. These benefits accrue because diversification decreases pressure on local resources, enhances livelihood strategies options available to people, builds human capital capacities, increases cash flows to and within rural areas, and promotes spatially diverse transactions. Ellis' focus is on the importance of changing macro-level development policy for supporting livelihood diversification at the micro-level.

Bebbington's (1999) framework for livelihoods analysis differs markedly in that it is the least linear and prescriptive. Being cyclical, the framework places the issue of individual and household access to five slightly different 'capital' assets (produce, human, social, natural, and cultural) as central to combining and transforming the assets in creating livelihoods, the expansion of the assets through state, market and

civil society established relationships with other actors, and the enhancement of capabilities which aim at making life more meaningful, increasing levels of influence in the governance of resources, and transformation of resources into income. Social capital is seen by Bebbington to be the most important asset in determining and broadening access to other assets, resources, and actors.

A critical analysis of all the above definitions and frameworks is the central place of 'capital assets' in determining livelihood strategies and outcomes. Access to the array of assets (i.e., natural, human, social, cultural, produce, physical, economic) is emphasized as being an important issue. In the frameworks, access is mediated by micro-, meso-, and macro-level policies, institutions, and processes. It is also worth noting that all these definitions and frameworks are premised on idealistic commitments to poverty reduction, sustainability, and people-oriented approaches to development (Carney, 2003). Furthermore, the end goal of these frameworks is to understand local livelihoods in order to influence micro to macro level changes so as to reduce household and community vulnerability to stresses and shocks, and to increase wellbeing. The sustainability of the local environment is an important aspect of not undermining the livelihoods of future generations.

The sustainable livelihood approach is adapted for this study because of its usefulness in the systematic and holistic analysis of poverty. It provides an informed view of development opportunities, challenges and impacts and places people at the centre of development work (Ashley and Carney, 1999). Moreover, it provides an improved understanding of poor people's lives, the constraints facing them, and inter-group differences. There is usually increased inter-sectoral collaboration in interdisciplinary community development research and work and it increases links between micro,

meso, and macro level considerations in poverty and development discourse (Carney, 2003).

Though the sustainable livelihood approach has proliferated in development theory and practice, evidence of persistent critique is a reality. The potential costliness of the process and over-emphasis of its vocabulary and processes is often cited. There is, therefore, the need for additional tools and skills complementary to the various aspects of the framework (Ashley and Carney, 1999). Also, Carney (2003) and Hussein (2002) in their review of sustainable livelihood thinking expressed concerns on the downgrading of issues associated with governance, power, rights, markets and economics, sustainability, and micro, meso and macro level policies, institutions and processes. The adaptation of livelihoods to long-term stresses and shocks particularly related to environmental change and to long-term (10, 20, 50 years) changes in rural economies also deserves increased attention in future application (Scoones, 2009). Murray (2001) also felt that the approaches attaches little importance to the vulnerability context and that an ongoing tension exists between bottom-up 'participatory' methodologies and the top-down involvement implied by development 'interventions'.

Arce (2003) re-echoes these apparent hypocrisies in the Sustainable Livelihood approach and added that the definitions and frameworks maybe perpetuating a top-down orientation through the use of conflated and abstract conceptualizations of capitals and assets as terms of reference for local realities rather than exploring value contestations and local understandings. Thus, technical, compartmentalized, and oversimplified nature of the frameworks could be perceived to come from a 'technocratic development drive', which Brocklesby and Fisher (2003) argue has

resulted in the exclusion of the principles, ethos, and values of recent community development work from livelihoods thinking.

However, the sustainable livelihood approach has been gaining increasing currency in recent years and its emergence is now seen as fundamental to poverty reduction approaches around the world (International Institute for Sustainable Development (IISD), 2003). It has two major dimensions, which are both essential for rural livelihoods, namely the environment or ecology, and the social dimension. The former is concerned with the sustainability of the natural resource base, on which most rural livelihoods rely.

#### **2.4. Micro-lending Methodologies**

Micro-lending practice is not a recent development. Credit cooperatives and charities making loans to young entrepreneurs have been documented from 18th century Europe (Hollis et al, 1998). A notable example was the fund created by 18th century novelist Jonathan Swift. Swift donated £500 of his own wealth for lending to “poor industrious tradesmen in small sums of five, and ten pounds, to be repaid weekly, at two or four shillings, without interest”(Sheridan 1787). Another interesting historical example of micro-lending is the Irish Reproductive Loan Fund Institution, which came into existence following the famine in 1822 in Ireland. The fund received donations from charities in London and made small loans (under £10) to individuals in small towns for “relief of the distressed Irish” (Hollis et al. 1998).

German credit cooperatives in the late nineteenth century also witnessed group micro-lending methodologies. These cooperatives were mostly found in rural communities where individuals knew one another very well. They were minimalist in approach and many had a policy of unlimited liability. That is, if the cooperative failed, any

member could be sued in order to recover the entire amount owed by the cooperative. Interestingly, these credit cooperatives were the inspiration for the credit union movement in the United States (Prescott, 1997).

Microcredit became an important tool in the world of development finance starting in the 1970s. Over the past four decades, older micro-lending methodologies have been tested and new methodologies evolved. Operations in diverse contexts such as economic, political, social and legal environments have inspired current creativities in micro-lending.

However, a specific micro-lending methodology is deployed based on the needs of target clients, conditions in the local environment (economic, social, political, and legal) and goals of the programme. Thus no two completely identical approaches to micro lending exist. However, nearly all micro-lending programmes can be classified as belonging to one of limited types. The purpose of this section is to present the methodological variations that exist in the field of micro-lending. All micro-lending programmes are generally categorized as either individual or group (peer) lending programmes.

#### **2.4.1 Individual Lending Programmes**

Loans are given to individual borrowers. The financial institution performs a thorough analysis of every potentially funded business venture. Borrowers usually receive loans based on past performances, credit histories, references and viability of business propositions. Commonly associated with commercial banks, potential borrowers under individual lending provide collaterals and/or co-signers so as to encourage repayment and credit officers built close long-term relationships with clients. This

makes successful individual micro-lending programmes highly modified variants of systems that are employed by commercial banks usually with urban clientele.

#### **2.4.2 Group (or Peer) Lending Programmes**

Whereas individual lending programmes disburse loans to individuals, group lending programmes disburse loans to groups that then on-lends to members. Group members, in this case, guarantee the repayment of one another's loans. Collateral and co-signers are generally not applicable. However, peer pressure and collective responsibility of group members replaces them. In addition, most functions of staff of the bank or MFI are typically delegated to borrower groups. For instance, peers screen one another, determining who to accept or not into groups and there are minimal loan analyses depending instead on peer assessments of each other's businesses (Waterfield and Duval, 1996).

#### **2.5 Operational Structures of Group and Individual Methodologies**

Individual and group lending methodologies have different operational and financial organizational structures. The selection of suitable methodologies and structures for programmes depends on such factors as organizational goals, profitability objectives and risk tolerance levels.

Individual and group lending methodologies also have different cost structures. Whilst the former requires careful analysis of loan processing on behalf of the lending institution prior to fund disbursement often costly, the latter is less time consuming and hence less costly. However, managing groups after loan disbursement requires additional time and there are costs implications. Also, the non-collateralization in group lending is considered riskier than individual lending. Thus, high revenues become a necessity if the lending institution is to be sustainable. This explains why

group loans are usually more expensive and have higher rates of interest than individual loans.

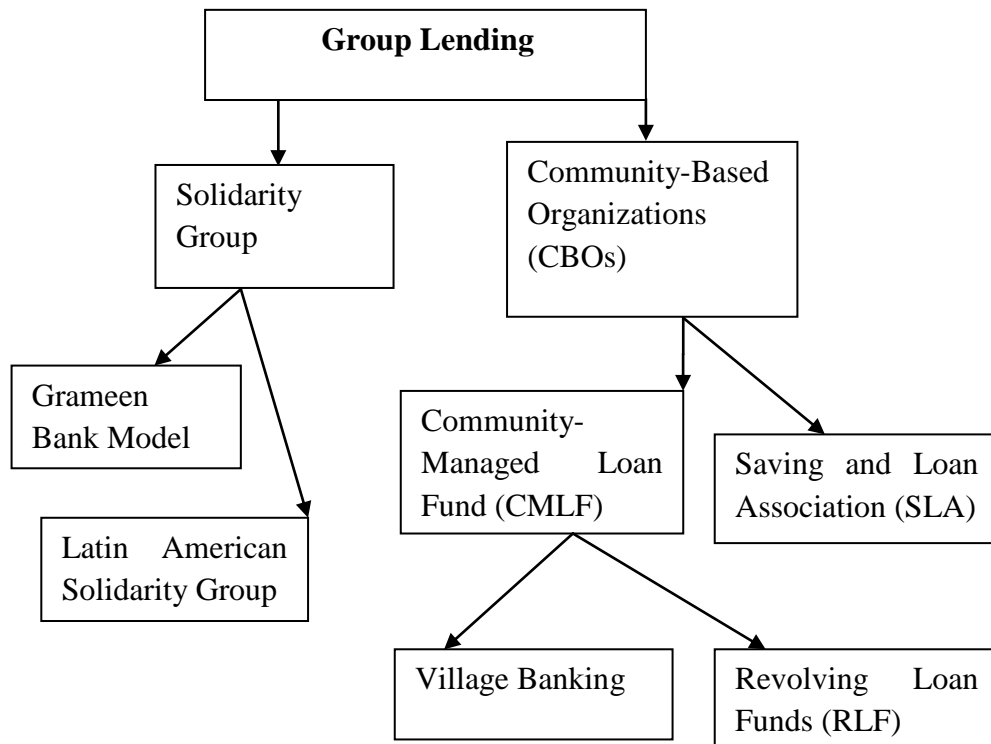
In summary, group lending methodologies have lower closing costs, but higher maintenance costs and generally higher overall costs than individual lending methodologies. It is therefore imperative that micro-lending organizations and programmes evaluate these tradeoffs when deciding on which methodology to deploy.

### **2.5.1 Approaches to Group Lending**

Unlike individual lending programs, which tend to generally follow the same approach, there are wide methodological variations among group lending programmes.

### **2.5.2 Solidarity Group versus Community-Based Organization Approaches**

Group lending methodologies are further categorized into either a Solidarity Group approach or a Community-Based Organization (CBO) approach with the basic distinction being the desired future relationship that the lending body expects with the borrower group. While the CBO approach ultimate goal is the eventual independence of the borrower group with well developed internal financial management capacity, that of the Solidarity Group approach do not anticipate the eventual graduation and independence of the borrower group from the lending institution. Borrower groups are expected to be long-term “clients” of the programme (Waterfield and Duval, 1996).

**Figure 2.2 Group Lending Approaches**

Source: Adapted from Waterfield and Duval, (1996).

### 2.5.3 Solidarity Group Models (Grameen Bank model) and Rural Livelihoods

Muhammad Yunus founded the Grameen Bank in Bangladesh in 1976 and it was the first to experiment with the Solidarity Group approach in its micro lending programme. Here, staff first identifies a potential village and conduct a one or two week training course in the village to orient future clients to the philosophy, rules and procedures of the programme. Secondly, groups of five unrelated, self-selected prospective borrowers are formed. Six to eight of these five member groups then federate to form a village “center”. These village “center” groups further federate to form Regional Branch Offices. Workers from these regional branches then work with a large number of clients (usually 200-300) and do not evaluate individual loans. Clients or members are instead allowed to assume responsibility for much of the management of financial services. In the Grameen model, groups of borrowers do

more than just guarantee loan repayment but rather they become a part of the institutional structure of the bank. Hence, the Grameen Bank is built “from the ground up” (Waterfield and Duval, 1996).

On how the methodology impact livelihoods of clients, borrowers are made to abide by a set of paternalistic rules central to Grameen Bank’s culture and its success—and that members reportedly recite with pride. These guidelines range from an adherence to Grameen principles—discipline, unity, courage, hard work through the building of family prosperity—to encouragement to repair and improve houses, grow vegetables year-round, plant seedlings each year, build and repair pit-latrines, introduce physical exercise in centers and neither request nor offer dowries. The guiding principles also emphasizes self-reliance, as a result liberating borrowers from the victim mentality and stressing that the whole community (of 8–10 groups) must not allow anyone to fall behind.

These extensive rules might not work in more prosperous societies, but they are effective in a society in which the infant-mortality rate is high, disease spreads quickly due to poor sanitation and ravages communities, natural disasters are common and educational attainment is low.

#### **2.5.4 Latin American Solidarity Group Model and Rural Livelihoods**

The Latin American solidarity group model emerged in the early 1980’s when loan programmes in Latin America that hitherto uses individual methodologies considered the success of the Grameen experience and incorporated certain aspects from it. Two main differences thus exist between it and the Grameen model. First, group formation under this model is simply a loan guarantee mechanism and groups do not form part of the institutional structure of the bank. The model however, maintained loan

approval and administration using already-existing operational systems developed for individual lending. For example, Credit Officers perform an analysis of each client's loan request (though significantly less extensive than in the case of an individual loan) and visit all group members at their enterprise locations prior to fund disbursement. Secondly, the Latin American solidarity groups are much more focused on the provision of credit for the engagement in livelihood strategies and activities, than the more socially-oriented aspects of the Grameen model and can be described as a minimalist in approach (Waterfield and Duval, 1996). An interesting example of solidarity group model is BancoSol in Bolivia. Generally, Latin America, microcredit was first used to support small businesses in the context of integrated programs that trained entrepreneurs, helped them with market assessments, provided assistance with sales, and even, technical assistance. The microfinance industry was later used to support an employment generation agenda as post oil-crisis recessions swept through the region and necessitated policy-makers to begin understanding the shift in employment out of the formal into the informal sectors of the economy. By the 1980's, microcredit was being widely touted as a means to strengthen the budding private entrepreneurial sectors of emerging markets. It was only in the 1990's that microfinance was seen as a strategy for direct poverty alleviation and this has always been seen as an important effort to empower the role of low-income women.

#### **2.5.5 Community-Based Organization (CBO) Approaches and Rural Livelihoods**

Models of group lending which have as an ultimate goal of developing the internal financial management capacities of groups are characterized as CBO Approaches. They aim at developing mini banks (independent of the lending institution) that are owned and managed entirely by the poor in the betterment of their lot.

The CBO approach is also further divided into two subgroups. These are Community-Managed Loan Funds (CMLF) and Savings and Loans Associations (SLA). The fundamental difference between the two is whilst CMLFs receive initial funding from outside the group (in the form of a loan or a grant), SLAs generate all funds internally (through member savings or retained interest). The Village Banking (VB) and the Revolving Loan Funds (RLF) represents the two main variations in the Community-managed Loan Fund (CMLF) approach.

### **2.5.6 Village Banking and Rural Livelihoods**

Developed by the Foundation for International Community Assistance (FINCA)- a U.S. based nonprofit organization with specialty in rural credit, Village Banking is the most practiced kind of Community -Managed Loan Fund (Waterfield and Duval, 1996). It has been widely replicated in different parts of the world by other NGOs and is successful at reaching poorer segments of rural populations. Though Village Banking is usually financed through loans provided by a lending institution, member savings, share capital and accumulated interests replaces external funding in the long run. The ultimate objective is to become administratively and financially autonomous within a three year period. Savings mobilization is a key component of this methodology than it is in the Grameen and Latin American Solidarity Group models. Village Bank members are required to save prior to receiving a loan and to continue saving during the loan cycle (Waterfield and Duval, 1996) so as support livelihood strategies during emergencies.

As the Village Bank becomes independent of the lending institution, bank policies become determined democratically as autonomy and self-sufficiency takes roots. A noted criticism of the Village Bank model however is the rarity of reaching self-

sufficiency because credit demand tends to grow faster than their ability to mobilize savings.

### **2.5.7 Revolving Loan Funds (RLF) and Rural Livelihoods**

This is similar to the Village Bank model in that both models use external funds and work towards the goal of setting up an independent and sustainable mini-bank run and managed by the poor. The external funding is also channeled directly to the RLF for onward lending to individual members. Also, a RLF group often women, typically consists of between 30 and 100 members and savings is a pre-condition prior to initial loan disbursement.

#### **Key differences between the RLF and the Village Bank models**

1. Usually a multiple of the equity, initial funding in both models comes either as a grant or a loan from an NGO or an MFI and no external funds is provided afterwards.
2. Depending on the purposes for which loans are contracted, repayment terms and conditions do vary in the RLF.
3. Though savings is compulsory for all members before loan disbursement, this may not continue after loan disbursement.
4. Repayment is primarily guaranteed by peer pressure. However, groups may choose to require collateral.

### **2.5.8 Savings and Loan Associations and Rural Livelihoods**

Savings and Loan Associations (SLA) are very similar to Community-managed Loan Funds. The only distinction is that member savings and equity contributions serve as the only source of funds for SLAs. No outside funding is accepted, though NGOs and other development organizations may provide technical assistance and training of groups of between 30 and 100 people. Savings mobilization is an essential feature and

each SLA determines their own rules for savings, loan amounts and terms and conditions for loan disbursement and repayments.

There are however myriad of variations in the designs of all these methodologies. For example, the well-known Grameen Bank has a more centralized management structure in its “village banking” with the participants less involved in self-management of the group credit. Most programmes also include a savings component. Overall, the preferred means for increasing the income and assets of very poor people especially women has become group-based lending, especially village banking.

#### **2.5.9 Savings and Credit Associations (SCAs) and Rural Livelihoods**

These are trained and facilitated groups, who fund, manage and own a savings and credit association typically with no outside funding. Basically, there are two types of Savings and Credit Associations (ACAs). These are the Rotating Savings and Credit Association (ROSCA) and the Accumulating Savings and Credit Associations (ASCA) both of which are financial self-help associations with a primary function of savings and lending. The main difference, however, lies in what happens to the funds. It is also not clear whether ASCAs have developed in parallel with ROSCAs, or whether they have developed evolutionarily (i.e. whether the ASCA is a further development of a ROSCA or vice versa), or whether they developed independently. Bouman (1995) lists about 80 countries in which ROSCAs are known to operate. ASCAs have not attracted that much attention by researchers so far (Ibid).

#### **2.5.10 Rotating Savings and Credit Association (ROSCA) and Rural Livelihoods**

A financial system where members' agreed upon savings contributions are collected at an agreed-upon time and rotated in turn to each member. It can also be said to be a group of individuals who make regular, financial contributions for the creation of a

fund. They meet regularly and at each meeting the fund is allocated to one member at a time. The allocation of funds however takes place on the basis of a pre-arranged principle. This is either determined before or during the first meeting. Once a member has received a fund, s/he will no longer be a candidate for future allocations, until the ROSCA cycle ends. The allocation of the funds can take place on the basis seniority of the group members, a lottery or negotiation. The other is through auction (i.e. bidding) among those participants who have not yet received money. Here, the person who makes the highest bid wins the pot. The price that the winner pays is added to future pots (or sometimes distributed among the ROSCA members). The ROSCAs with this mechanism are called bidding or auction ROSCAs (Klonner, 2001). In the latter method, not all group members receive the same amount of money. ROSCAs have different names across the world. According to Bouman (1995), in Cameroon, they are called “tontine”, while in Peru they are called “pandero” In Nepal they are called “dhikuti” or “dhikur” and in India they are called “chit funds”, “chits” or “committees”.

#### **2.5.11 Accumulating Savings and Credit Associations (ASCAs) and Rural Livelihoods.**

These are financial systems where members agreed upon savings contributions are collected at an agreed-upon time and amounts (shares) and can be used to finance loans, insurance, and/or other financial services. Unlike ROSCAs, members’ savings contributions accumulate over time and usually return a dividend. ASCAs are also described as informal savings groups that resemble ROSCAs but are slightly more complex. In an ASCA, all members regularly save the same fixed amount while some participants borrow from the group. Interest is usually charged on loans. ASCAs require bookkeeping because the members do not all transact in the same way. Some

members borrow while others are savers only, and borrowed amounts may vary on different dates for different periods. If members pay interest on their loans, the return to savings has to be individually calculated and fairly shared among the group (CGAP).

#### **2.5.12 Similarities between ROSCAs and ASCAs and Rural Livelihoods**

ROSCAs and ASCAs have a number of characteristics in common. The main purpose of ROSCAs and ASCAs is to provide savings and lending services. They are voluntary, autonomous and membership-based organizations with their own objectives, rules and organizational patterns. They are established for, and by the poor and non-poor alike. They are self-sufficient and self-regulating, and initiate their own control mechanisms. As such, they are independent from legal, fiscal, and financial authorities (Bouman 1995).

The rules of the game are written down and records and accounts are audited. In ROSCAs, the chairperson is often referred to as the "agent". He/she has to make sure that the rules are applied, and is ultimately liable for any losses. They are supported by a secretary and a treasurer. ROSCAs and ASCAs have strict and regular meeting schedules, standard contributions, and standard fines for non-payment. They are always run at the same location and meetings take place at fixed days and hours.

#### **2.5.13 Differences between ROSCAs and ASCAs and Rural Livelihoods**

The main difference between a ROSCA and an ASCA is what happens to the fund. These differences are best illustrated through examples. The tables below present an illustration of the basic principles of ROSCAs and ASCAs. Table 2.1 shows the basic principle of an ASCA with three people contributing ₵30 each per share. The money is paid over time in fixed amounts. The ASCA initially accumulated ₵ 120.00. From

this amount, members can take loans at an interest rate of 10 % per month. The principle of compound interest is not applied. Due to interest repayments, the volume of the ASCA account increases.

As a result, members have better chances of borrowing larger sums of money if they do not share out the initial payment to end the cycle. The value of the member's savings also increases. This explains why it is called an accumulating Savings and Credit Association (ASCA).

**Table 2.1 Basic principle of a society (ASCA)**

<b>Outset of the ASCA</b>
Members pay their financial contribution regularly for sometime(to accumulate capital) Person A contributes ¢ 30.00 Person B contributes ¢ 30.00 Person C contributes ¢ 30.00 ¢ 90.00 is put into the ASCA box, from which all members can take a loan
<b>Taking a loan</b> - only simple interest, no compound interest is charged on loans
At the beginning of the cycle, the account contains ¢90.00 Person A receives a loan of ¢ 50.00 Person B does not borrow. Person C receives ¢ 40.00
In the 1st month, person A gets a loan of 50. Person C also gets a loan of ¢40 . They both pays 10% interest per month. In the 3rd month, person A repays the loan (50). S/he also pays ¢ 15.00 interest (i.e.10 % * 50 * 3 months) Also, Person C repays the loan (40). S/he also pays ¢12.00 interest (10% * ¢40.00 * 3months). The total repayment is therefore ¢ 65.00+ ¢ 52.00= ¢ 117.00
After this repayment, the account contains ¢ 65 (repayment from person A) plus ¢ 52 (repayments from person C). The total amount in the account is therefore ¢ 117.00. Thus, person B earns an interest on his/her contribution
The ASCA has accumulated money (it increased from 90 to 117

**Table 2.2 Basic principle of a chit (ROSCA)**

<b>1st month: chit meeting</b> Member A contributes ¢ 30.00 Member B contributes ¢ 30.00 Member C contributes ¢ 30.00	Person A receives ¢ 90.00
<b>2nd month: chit meeting</b> Member A contributes ¢ 30.00 Member B contributes ¢ 30.00 Member C contributes ¢ 30.00	Person B receives ¢ 90.00
<b>3rd month: chit meeting</b> Member A contributes ¢ 30.00 Member B contributes ¢ 30.00 Member C contributes ¢ 30.00	Person C receives ¢ 90.00

In table 2.2, three people agreed to contribute ₵ 30.00 per month to create a fund. The monthly pooled savings of ₵ 90.00 are immediately redistributed among the members, on the basis of a rotation system. The rotation will continue until each member has received his/her share. At that time, the ROSCA comes to an end. During a life cycle of the ROSCA, each member receives money only once hence the name Rotating Savings and Credit Association. However, ROSCAs come in very different kinds and sophistications.

## **2.6 The Credit with Education Model and Rural Livelihoods**

Within the village banking movement, there have been many attempts to take advantage of the opportunity to integrate education with village bank meetings. The integration process falls into two categories:

1. A generalist field staff provide both the extension education and financial services at the same village bank meetings and
2. Two or more specialist field staff provides extension of non-financial services separately from the one providing the financial services. These specialists are either employed by the same organization (e.g. staff of an MFI), or different organizations (staff of MFI and specialist NGO staff). Also, meetings are either conducted with the same village bank members at the same meeting or at different meetings.

When costs for both services are considered, the first offers a lower-cost model variation most likely to be fully sustainable with programme generated revenues as it represents the tightest integration of activities. In addition, women play an essential role in the family's well-being because of their triple roles of productive, reproductive and community managing. The Credit with Education was specifically designed to

address the problems of chronic hunger and poverty with the objectives that, access to financial services (loans and savings) offers poor households a flexible and potentially sustainable means for enhancing their livelihood strategies and reducing their vulnerability. Research has also proven that income increases that will have the most direct, positive impact on food security and nutrition are those earned by the poorest households, controlled by women and earned in steady and regular amounts and that income in itself is unlikely to have a substantial impact on malnutrition of women and young children unless key practices affecting maternal and child health and nutrition are also adopted.

### **2.7 The Village Savings and Loans Model (VSL) and Rural Livelihoods**

The VSLA is a type of ASCA or SLA model that is self-capitalized and self-managed. It is a methodology that allows members to mobilize and intermediate local pools of investment finance and offers savings, insurance and credit in markets usually outside the reach of formal institutions. The model was developed by CARE International in Niger in 1999 and it is characterized by a focus on savings, asset building and the provision of credit proportionate to the needs and repayment capacities of the borrowers. Groups are low-cost, simple to manage and can be seen as a first step for people to reach a more formal and wider array of financial services. VSLAs can dramatically raise the self-respect of individual members and help to build up social capital within communities, particularly among women who represent approximately 70 percent of members.

The approach is based on a four-phase curriculum. The first phase involves an intensive, three-month period of weekly training on group dynamics by a trained facilitator. During this period, the facilitator identifies, select and trains a Community

Contact Person (CCP or village trainer) who lives in the target community to oversee activities of groups and reports. This CCP is paid by the VSLA and not the implementing agency. In the second phase, the facilitator visits the groups once or twice a month as they begin to rely more on the CCP. In the third phase, after approximately a year of supervision, if the CCP passes a certification test, the facilitator move on to another area and start the process all over with new groups. In the fourth phase, in the original VSLA model once a group is matured it's allowed to function with no external support (VSLA Training Guide, 2004).

On how the VSLA affects livelihoods, VSLAs provides financial services for the poorest rural households that are not in position to access financial services from the formal financial institutions while at the same time forming a platform for members to graduate to form banks. VSLAs provide its members with secure savings while simultaneously encouraging beneficiary households to save; access to manageable loans at an interest rate determined by the group members; offers some form of insurance through a self-financed provident fund; offers an opportunity for improved social cohesion and support within communities; a forum for other learning and social development activities such as improving food security and learning about HIV/AIDS, malaria etc. There are however five key factors that helps to make VSLAs sustainable. These include savings led – no external liabilities; simplicity – high level of transparency helping builds trust; sustainable – once established groups have almost no operating costs and groups self-replicate; Welfare fund – helping to meet emergency needs of group members; and that groups can act as platform for accessing other financial institutions and services.

## **2.8 Theories of microfinance and rural livelihoods**

Theories of microfinance regarding the industries aims are generally categorized into two -an economic and a psychological. The economic theory treats microfinance institutions (MFIs) as infant industries, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as "social consciousness driven people."

Furthermore, microfinance has spawned a large theoretical literature, which can be categorized further into two. The first category of theoretical literature addresses the specific problems that poor people have in gaining access to financial services at an affordable cost, particularly as a result of their lack of collateral. In the same vein, potential lenders are also deterred by high costs of collecting reliable information about the actual, or projected incomes of borrowers or potential clients with low overall 'debt capacity' (von Pischke 1991). Thus, theoretical literature here addresses the reduction of the cost of loan monitoring, screening and enforcement through group lending.

The second strand of literature explores impact pathways of microfinance on enterprises, households, and individuals. This part therefore addresses the ways communities regulate access to livelihood opportunities, and how problems of access to credit, other income and consumption smoothing opportunities can at least be partially be overcome by engagements with MFIs.

### **2.8.1 The theory of rural financial markets and rural livelihoods**

The concept of group lending is commonly heralded as the main innovation of microfinance and claims to provide an answer to the shortcomings of imperfect credit markets, in particular to the challenge of overcoming information asymmetries (Armendáriz de Aghion and Morduch 2005, 2010). Information asymmetries may

lead to the distinct phenomena of adverse selection and moral hazard. In the case of adverse selection, the lender lacks information on the riskiness of its borrowers. Riskier borrowers are more likely to default than safer borrowers, and thus should be charged higher interest rates to compensate for the increased risk of default. Accordingly, safer borrowers should be charged less provided each type can be accurately identified. Since the lender has incomplete information about the risk profile of its borrowers, higher average interest rates are passed on to all borrowers irrespective of their risk profile (Armendáriz de Aghion and Morduch 2005, 2010). ‘Moral hazards’ generally relates to the loan utilization by the borrower, i.e. the lender cannot be certain a loan, once disbursed, is used for its intended purpose, or that the borrower applies the expected amounts of complementary inputs, especially effort and entrepreneurial skill, that are the basis for the agreement to provide the loan. If these inputs are less than expected then the borrower may be less able to repay it (Ghatak and Guinnane 1999). In addition to adverse selection and moral hazard, high transactions costs, the provision of incentives to borrowers for timely repayment as well as the design and enforcement of adequate loan contracts are further challenges that play a role in explaining the failure of rural credit markets. In this context microfinance and its group lending approach steps in. Microfinance advocates claim that the formation of joint liability groups (JLGs) with its focus on peer pressure and monitoring responds to these challenges. As a result, the theoretical microfinance literature has focused on developing models that explain the workings of the JLG concept and its success, in particular, in overcoming information asymmetries.

The standard model of lending commonly contains two mechanisms which address the issue of information asymmetries: assortative matching or screening to deal with

adverse selection, and peer monitoring to overcome moral hazard (Ghatak and Guinnane 1999). In this widely cited paper, Ghatak and Guinnane (1999) reviewed how the principle of group lending facilitates assortative matching or screening and peer monitoring. Early models were developed by Stiglitz (1990) and Varian (1990) and Banerjee et al. (1994). These models examined how group liability schemes resolve moral hazard and monitoring problems. Other models developed by Ghatak (1999 and 2000), Gangopadhyay et al. (2005) and Armendáriz de Aghion and Gollier (2000) were inspired by Stiglitz and Weiss (1981) and focused on adverse selection and screening mechanisms.

Moreover, social ties among group members, i.e. social connections in the language of Karlan (2007), also referred to as social capital appear to play an important role in the context of group liability schemes in terms of enhancing repayment behavior, as theorized by Besley and Coate (1995) and Wydick (2001).

The overall thrust of the literature is that the concept of JLGs does indeed overcome adverse selection by introducing better screening mechanisms. In addition, peer monitoring helps to overcome moral hazard and provides group members with incentives to repay loans resulting in high repayment rates (Ghatak and Guinnane 1999).

The theory of the rural financial markets (Hoff and Stiglitz, 1993) captures the economic theory of the phenomenon of microfinance industry as infant industry succinctly. The theoretical evolution starts with the explanation of the differences in the performance of the formal and informal financial intermediaries with respect to financial services delivery in the rural financial market. Microfinance as with all financial intermediation is faced with the problem of imperfect information regarding

the screening of borrowers, incentives to induce repayment and enforcement of action to ensure repayment. However, the informal intermediaries have access to mechanisms which enable them to solve the problem of imperfect information relating to screening, incentives and enforcement (Hoff and Stiglitz, 1993) which the formal intermediaries do not. The mix of theories of the rural financial market that encompasses economic includes:

- the traditional view of the usurious monopolistic moneylender
- the perfectly competitive nature of rural financial markets and
- the New Institutional Economics approach of the imperfect information paradigm (Hoff and Stiglitz, 1993).

### **2.8.2 The theory of the usurious monopolistic moneylender**

The theory of the usurious monopolistic moneylender explains the rationale behind the high interest rates charged by the informal financial intermediaries. The theory assumes that there is no competition among the money lenders (Hoff and Stiglitz, 1993). Bell (1988) therefore developed a model that showed that the monopoly power rather than the lenders risk is the key determinant of interest rates of moneylenders. The model went further and predicted that the lending interest rate charged exceeds the marginal cost of borrowing and the usurious moneylender earns pure profit. Bottomley (1983) also believed that monopoly is the major cause of the high interest rates of informal intermediaries. This assertion is however not supported by empirical evidence as a study by Singh (1983) revealed that the high interest rate charged by the moneylenders is due to the high risk of incomplete or delayed repayment and the high rate of return on the alternative use of funds. He then concluded that the monopoly profit account for only a negligible proportion of the interest rate charged.

### **2.8.3 The theory of the perfectly competitive rural financial markets**

The theory of the pure competitiveness of the rural financial market view rural financial markets as competitive and characterized by market clearing with the high interest rate reflecting risk of default and the high transaction cost of information. This view is associated with Stigler (1967) who argued that there is no imperfection in a market possessing incomplete knowledge if it would not be privately remunerative to acquire complete knowledge.

### **2.8.4 The theory of the imperfect information paradigm**

This theory on the other hand stresses the importance of the costly and imperfect information resulting from the asymmetries of information problem with respect to screening of loan applicants, incentives for repayment and enforcement of actions to ensure repayments by borrowers. The informal financial intermediaries have a cost advantage over the formal intermediaries in addressing the problem because of their access to devices and mechanisms to gather necessary information about their clients. They frequently have more detailed knowledge of the local conditions, their clients and the community in which they operate. As a result, these informal intermediaries often face lower transaction cost in their services delivery. The formal intermediaries on the other hand enjoy economy of scale and can mobilize large amounts of deposit for credit delivery. The imperfect information paradigm therefore suggests some policy options for the formal sector in order for them to solve the problem of information asymmetry between lender and borrower. Among them are:

- linkages between formal and informal financial intermediaries
- Mimicking of the informal by the formal financial intermediaries (Hoff and Stiglitz, 1993) and

- both cases may involve the use of small group peer monitoring systems

Some formal financial intermediaries have opted for the linkage option. Here, it is believed that by forging links with informal financial intermediaries, more financial resources could be made available to the poor to support the expansion and improvement of informal activities with potentially large positive impact on employment outcomes. A number of institutions such as the Bank of Indonesia, Land Bank in the Philippines, National Bank for Agricultural and Rural Development (NABARD) in India and BAAC in Thailand have encouraged banks and NGOs to cooperate on the commercial terms of existing financial self-help groups (Seibel, 1996), thereby reducing the transaction cost of lenders and borrowers as well as risk of depositors and deposit takers.

Others have used the mimicry option as a means of reaching out to the marginalized. The mimicking of some practices of the informal financial intermediaries by the formal ones implies downgrading of the latter's services with its attendant cost of administering those services. Bank Dagang Bali in Indonesia and the Northern Mindanao Development Bank in the Philippines have adapted financial technologies like the daily deposit collection (Seibel, 2001). In Ghana, a number of formal financial intermediaries have adopted the mimicry approach (e.g. through individuals' daily Susu contribution) as a means of reaching out to marginalized households and enterprises within their catchment areas (Jones et al, 1998; Odonkor, 2007).

### **2.8.5 The Psychological theory (social consciousness-driven capitalism) and rural livelihoods.**

The psychological theory of micro credit, also known as social consciousness-driven capitalism, has been advanced by the most ardent promoter of micro finance, Muhammad Yunus (1998). His theory argues that a species of profit-making private

venture with the welfare of its customers is possible. The theory stipulates that though altruistic tendencies cannot be said to be totally absent, capitalism is premised on the fact that human beings are selfish by nature. Thus, the principle of profit maximization by businesses can only be natural and therefore little consideration for the interests of clients. This notion, however, portrays a limited representation of the general model of capitalism as it excludes individuals concerned about the social good. A more generalized principle would therefore assume that an entrepreneur maximizes a bundle consisting of both financial (profit) and social returns.

According to Elahi, (2002), the assumption underlying the psychological theory creates three groups of entrepreneurs. The first group consists of traditional capitalists who mainly maximize financial returns or profits. The second group consists of philanthropic organizations (like traditional microcredit NGOs) and public credit agencies that mainly maximizes social returns and finally the third group consists of entrepreneurs who combine both rates in making their investment decisions under the additional constraint that financial returns cannot be negative. This group includes microfinance entrepreneurs who are to be seen as socially concerned people and the microfinance industry as social consciousness-driven capitalistic enterprises. The concerns of these businesses should be to focus on shareholder welfare rather than maximizing short-term financial returns and since markets cannot survive without certain capitalist tools, Yunus proposes that the profit maximization principle be replaced with two goals. These are maximized financial returns and social returns through corporate social responsibility.

#### **2.8.6 The nature of rural financial markets and rural livelihoods**

Agriculture predominate most economic activities in rural areas of developing countries the world over. In these environments, seasonal variability of agricultural production and income results in the need for short-run financial intermediation service facilities as a liquidity management device over production cycles (Conning and Udry, 2005). Therefore, the demand for financial intermediation as an effective device for risk-pooling and risk-sharing is potentially immense. Stiglitz (1989) described a financial market as an important set of institutions that operate in environments characterized by imperfect, costly and incomplete information, hence appropriate governance mechanisms are required to eschew the agency problems arising from opportunistic behaviours such as moral hazards and adverse selection. Indeed, Stiglitz's theory of imperfect information shares many commonalities with the analysis of institutional economists such as Coase (1992), North (1990) and Williamson (1985). Both schools of thoughts criticized the conventional neo-classical model for failing to include the role of transaction costs in exchange and for its inability to explain the role of institutions in the formation and operation of markets by altering both transaction costs (minimizing) and uncertainty (reducing). Thus, both Stiglitz's theory of imperfect information and new institutional economics theory emphasizes the costliness and incompleteness of information and enforcement on which agents in the real world have to act.

The rural financial system in most developing countries comprises the activities of formal and informal financial markets, together with their respective institutions (Nwanna, 1989). Hoff and Stiglitz (1990) and Conning and Udry (2005) also segmented the rural financial system into formal and informal markets by the structural differences in the cost and risk characteristics of the different types of

transactions in these different markets. The activities of formal financial markets or institutions are regulated and are subject to 'official and direct monetary controls. This contrasts with the activities of informal financial markets or institutions which are often not subject to review and control by monetary authorities (Nwanna, 1989). According to Nwanna, (1996), the formal financial sector in most West African countries consists largely of a central bank, commercial banks, finance houses, building societies, development finance institutions, savings institutions and the insurance industry. The informal financial markets on the other hand include such actors as Moneylenders, Traders, Estate Owners, Grain-millers, friends, relatives, neighbors, businesses and employers.

Generally, lenders in financial markets are exposed to two types of risks in their dealings with borrowers. These are systemic and idiosyncratic. The high systemic risk originates from unpredictable variations in income as a result of exogenous factors. The high idiosyncratic risk stems from the costly acquisition and asymmetric distribution of information which can lead to the pervasive problems of moral hazard and adverse selection. Asymmetric information makes it difficult for a would-be creditor or insurer to be sure whether the expected probability distribution over state contingent payoffs associated with a contract promise is the one being represented by the seller or not, as in the case of adverse selection or moral hazard.

The new institutional economics thus points to a possibility of segmentation of the rural financial system leading to market specialization. Each specialized market segment would then serve specific market niches by exploiting its comparative advantages in the assessment of borrower specific idiosyncratic risks in the inherent environment of imperfect information. According to Nisanke and Aryeetey, (1998),

institutions have typically been burdened with several agency problems in dealing with peculiar risks caused by the costly and imperfect information between borrowers and lenders that can result in such as adverse selection, moral hazard, and contract enforcement. Karlan and Zinman (2004) using a randomized intervention in the identification of the extent of adverse selection and moral hazard in a South African credit market, found out that about 40 percent of defaults can be attributed to asymmetric information.

According to Hoff and Stiglitz (1990), imperfect information of the lender concerning the ability and willingness of potential borrowers to repay loans basically leads to three problems. These are screening, incentive, and enforcement. In attempt to overcome these problems, lenders demand collateral that they can seize in case of loan default (Binswanger and Rosenzweig 1986). If the information required for screening or monitoring borrowers is too costly, lenders may restrict the loan amount they are willing to grant, engaging in loan-size rationing, or they may not lend to particular applicants at all (Gonzalez-Vega, 1977). Also, if the required institutional infrastructure is missing, then the cost of contract enforcement will be too high, even prohibitive, and some potential borrowers would not gain access to formal loans (Fleisig and de la Peña, 1996).

The formal financial sector often views most rural sector activities as non-bankable for a number of reasons including the high risk of default associated with small operations, high transaction costs, and the absence of suitable collateral and the lack of banking experience among rural households (Binks, 1979). Other related reasons have included the uncertainty of the production patterns, to unfavourable investment climate, often, due in part to prevailing government policies.

In place of legal frameworks, social mechanisms are then used for contract enforcement. In these environments, financial services are provided by numerous informal sources due to their information and enforcement advantages, which meet some demands from rural firm-households (Besley and Coate, 1995). The informal financial sector has developed appropriate tools and techniques for providing financial services to the rural sector and to micro-enterprises, but often lacks the breadth, depth and term transformation to provide the full and appropriate range of financial services (Nwanna, 1996). Informal loans are usually timely, reliable, and low transaction costs are levied on borrowers. However, depending on the source, informal financial institutions most often charge usurious interests rates. The informal credit system plays an important complementary role to the formal system in the rural financial market. This is because problems associated with information asymmetries are limited in their service delivery leading to low delinquencies. A survey by Udry, (1994) confirms the view that delinquency and default rates in the informal sector are relatively low. In Ghana between 70 and 80 per cent of informal lenders surveyed reported that they had no delinquent borrowers in 1990 and 1991. Udry, (1995) also found that some form of coinsurance existed between informal lenders and borrowers. For example, the level and timing of debt repayment in Nigeria has been found to be dependent on whether a borrower or a lender experienced shocks to income or not.

### **2.8.7 Financing rural livelihood strategies (micro- and small-scale enterprises)**

Most rural people in Ghana do not have access to banks, credit unions or similar financial institutions and services. There is growing evidence that, in many third world economies, rural non-farm and to a lesser degree farm enterprises are the largest employers and the ones with the highest potential of employment growth.

Hazell and Haggblade (1993), for example, emphasized that when rural towns are included in employment calculations, the share of the rural labour force employed primarily in non-agricultural activities rises sharply.

The lack of capital is the greatest constraint to the development of micro enterprises (Kurwijila and Due, 1991), and its high cost is cited as a primary constraint to the expansion of enterprises engaged in non-formal activities. Zellar and Sharma (2000) found evidence that suggests that in spite of the vibrant informal financial markets in many developing countries, financial services to the poor still remain inadequate. According to Sethuraman, (1977), informal sector enterprises find the banks unhelpful and unsympathetic to their needs, since unlike potential clients' of their formal sector counterparts, they cannot provide the necessary collateral. Banks prefer to deal with large borrowers due to economies of scale in loan processing. Evidence shows that significant costs other than interest rate prevent access by small borrowers (Ahmed, 1989). The net impact of all these factors is a skewed distribution of credit to wealthy borrowers, a contradiction of the rationale behind subsidized and directed lending to "small men with small causes" (Adams and Nehman, 1979). A study by Robinson, (2001) showed that, among the economically active poor of the developing world, there is strong demand for small scale commercial financial services for both credit and savings. Where available, these and other financial services help low income people improve household and enterprise management, increases productivity, smooth income flows and consumption cost, enlarge and diversify their micro businesses and increase their incomes.

Microfinance is one of the key factors related to the promotion of micro enterprises. The theoretical literature suggests that micro and small scale enterprises are credit

rationed out due to market failures. The United States image of the small business as one that is starved of capital is reproduced in most developing countries. A wide array of academic research, including DeYoung et al. (1999); Goldberg and White(1998); Mason (1998); Strahan and Weston (1998) and Weinberg (1994) as well as professional and journalistic literature supports the notion that micro and small scale enterprises are severely rationed out by the banking system. Theoretical arguments in support of the hypothesis of rationing of micro- and small-scale enterprises by banks find their roots in the seminal works on credit rationing of Stiglitz and Weiss (1981) and continues to be supported by a continuous flow of much recent research. A straight forward extension of Stiglitz and Weiss (1981) model by Tybout (1984) to developing countries yields that the loan offer function is "upward sloping" in firm size, a result that the author test and confirms on Colombian data. Yan (1996) also provided theoretical evidence of credit rationing being more severe for micro- and small-scale enterprises.

A considerable amount of work has been done by researchers to find ways to reduce the severity of market failure by introducing innovations in the structure of the contract between the lender and the borrower. Examples of this work include Jaffer (1999) and Stiglitz (1990). Much of this research has evolved from the successful experience in sharing liability initiated by Grameen Bank. Fanelli and Medhora (1998), although with a slightly different wording, emphasized the importance of the macroeconomic policies and the legal, regulatory and supervisory framework. Yaron and Piprek (1997) also noted that rural oriented financing faces a number of other impediments that make their task even more difficult. Among them include urban bias of existing regulation and the poor definition of property rights.

### **2.8.8 Innovations in financing rural livelihood strategies**

The capacity of financial intermediaries could be enhanced if integrative mechanisms is adopted and adapted by both the formal and informal segments of rural financial markets. The ultimate objective is then the reduction in the operational constraints of each and capitalizing on the comparative advantages conferred by each sector. As Rhyne and Otero (1992) stated, no bank will succeed with small borrowers by applying its standard operating procedures. Bell (1990) also showed that when informal lenders act as intermediaries for formal financial institutions, the resulting lower cost of funds to informal lenders will be passed on to borrowers, depending on the degree of competition in the informal market. According to Jones et al (2000), by linking with existing informal savings and credit arrangement, formal institutions can greatly increase the volume of small loans available to rural people in ways which are accessible, provide high repayment rates and are profitable. Thus, where demand is non-exclusive, direct credit links can have a positive effect on the efficiency of financial systems.

Institutional measures for financial market transformation should directly address the informational, incentive and the contract enforcement problems (Hoff and Stiglitz 1990; Conning and Udry, 2005). These should therefore encompass measures aimed at: strengthening legal systems related to property rights safeguards and contract enforcement; accumulating information capital; improving the governance and incentive structure; and intensifying market network development. Special attention should also be paid to ‘institution innovation’ aimed at overcoming extreme market fragmentation through effective integration measures (Ibid).

The emerging microfinance movement demonstrates institutional innovations that appear to greatly reduce the risk and cost of providing financial services to poor households. Innovations include contracts that give borrowers incentives to exclude bad credit risks and monitor other borrowers' activities, schedules of loans that increase over time conditional on successful performance, and weekly or semi-weekly loan repayment requirements (Morduch, 1997). A research by Platteau (1992) showed that high transaction costs due to information asymmetry appear less of a hindrance in networks of close social interaction i.e. indigenous group-based systems may not only link with formal savings and credit systems, but may also assume functions of insurance (at least for idiosyncratic risks). In Ghana, group based credit schemes are increasingly becoming popular with rural and community banks. Essel (1996) has also noted that group-lending schemes have been gradually gaining ground among the Rural Banks in Ghana and that the benefits reaped by the banks and their customers to date have been significant. He concludes his careful analysis of the Rural Bank programme by arguing that the banks should intensify efforts to establish group-based lending programmes.

### **2.8.9 Impact of microfinance on rural livelihoods, women empowerment and profitability of service providers**

The impact of micro finance on particularly rural livelihoods is well documented. Microfinance programmes do have positive socio-economic impact on individuals, households, enterprises, microfinance institution as well as communities. It has also been use over a couple of decades as a tool in the promotion of women empowerment. For instances, studies by Pitt and Khandker, (1998) showed that the impact of the Grameen Bank's lending activities included increased household income, assets held by women and moderately positive impact on the education of sons in particular.

Studies by Remenyi and Quinones (2000) also indicated that, household income of families with access to credit was significantly higher than for comparable households without access to credit. In the study in Indonesia, they found out that, there was a 12.9 per cent annual average rise in income from borrowers while only 3 per cent rise was reported from non borrowers (the control group). They noted that, in Bangladesh, a 29.3 per cent annual average rise in income was recorded for borrowers and 22 percent annual average rise in income from non-borrowers. In Sri-Lanka there was a 15.6 per cent rise in income from borrowers and only 9 per cent rise from non borrowers. In the case of India, 46 per cent annual average rise in income was reported among borrowers with 24 per cent increase reported from non-borrowers. The effects were higher for those just below the poverty line while income improvement was lowest among the very poor. Chowdhury et al. (1991) asserted that women (and men) participating in BRAC sponsored activities have more income (both in terms of amount and source), own more assets and are more often gainfully-employed than non-participants. Mustafa et al. (1996) confirmed this and noted that members have better coping capacities in lean seasons and that these increased with length of membership and amount of credit received.

Zeller and Sharma (1998), in their assessment of the impact of micro credit on household income found out that access to credit or participation in a credit programme positively affected household income in four out of five countries assessed. Households with improved access to credit were also better able to adopt technologies, spent more on food and in some cases had higher calorie intakes. Access to financial services improves the incomes of and opportunities for the rural

poor and provides support to tide families over difficult times. And poor households strive to repay loans so that they will be able to borrow another time.

Owusu Ansah (2001)'s study on Ghana attests to the fact that micro finance can indeed be used as a strategy for reducing poverty. Using an impact analysis studies on clientele of micro finance institutions operating in Ghana, i.e. Sinapi Aba Trust (SAT) and BRI-UD it was revealed that by providing micro credit to SAT's clientele, household incomes increased on the average by 157 percent for the period August 1994 to July 1997. Mosley (2001) and Copestake, Bhalotra, and Johnson (2001) assessed the impact of micro-loans in Bolivia and Zambia, respectively. Both found a positive impact of loans on the clients' economic situation. Mosley also found evidence for poorer clients benefiting less because they prefer low-risk and low-return investments.

Furthermore, concerns with gender in microfinance programmes is motivated by the observation that women tend to be more reliable borrowers than men, with much lower probabilities of delinquency, and that women may allocate resources differently from their spouses (Wood and Sharif, 1997). Studies show that when women are given greater autonomy over their lives and the lives of their children, living conditions invariably improve. This is mostly due to the fact that women are most apt to use household income to better the nutrition and educational opportunities of their children (Grasmuck and Espinal, 2000).

Pitt and Khandker (1998) interpret their finding that loans to women have higher marginal impacts than loans to men as an indication of a lack of fungibility of capital and income within the household. But since loans to males are larger on average, the difference can also be explained by the standard theory of declining marginal returns

to capital. Although the average loan sizes in Pitt and Khandker (1998) showed females with much higher average borrowings (e.g., women borrowed 956 taka from Grameen versus 374 taka borrowed by men, the average is for the entire sample with zeroes included for non-borrowers. Hulme and Mosley (1996) state that microfinance projects can reduce the isolation of women as when they come together in groups they have an opportunity to share information and discuss ideas and develop a bond that was not there previously. From studies of the Grameen Bank and BRAC they show that clients of these programmes suffered from significantly fewer beatings from their husbands than they did before they joined the MFI. However, in a separate study of a BRAC project Chowdhury and Bhuiya (2004) found that violence against women actually increased when women joined the programme, as not all men were ready to accept the change in power relations, and so resorted to violence to express their anger. This violence did decrease over time. The study found that when the violence did rise, the members due to their increased awareness reported back to the group on their marital life and got support from it.

Additionally, Sachs (2005) in a visit to a BRAC project was amazed to find that women he spoke to had only one or two children, when he was expecting them to have five or six as he had become accustomed to for Bangladeshi women. When he asked those with no or one child how many children they would like to have, the majority replied two. He called this a “demonstration of a change of outlook”. He referred to a new spirit of women’s rights, independence and empowerment among clients, showing the positive empowerment effects the project has had on the women.

On women clients and groups, Osmani (1998) analyzed the impact of credit on the well being of Grameen Bank women clients. The project was found to have increased

their autonomy in that they were able to spend family income more freely than non-clients. They had greater control over family planning. However, the project was not shown to have had an impact on clients' control over other decision-making even though they were found to have greater access to household resources than non-clients did. However, Johnson (2004) states that having women as key participants in microfinance projects do not automatically lead to empowerment. Sometimes negative impacts such as increased workloads, increased domestic violence and abuse can be witnessed (Johnson, 2004).

McKernan (2000) and Madajewicz (1999) analyzed the impact of participation in microfinance programmes on profits. While McKernan found a significant impact with profits increasing by roughly 175 per cent, Madajewicz focused on the distinction of group loans versus individual loans. She found out that, when compared to individual loans, group loans from the Grameen bank increase profits by 8 per cent for households with no land and by less for wealthier households. That is, wealthier households benefit more from individual loans than from group loans. Coleman (2001) analyzed a microfinance programme in Northeast Thailand. Correcting for selection bias, it was found that the impact of microfinance institutions on household wealth was either non-significant or negative. He attributed the negative impact to the small size of the loans. Being too small for investment, the loans were used for consumption and households turned to moneylenders to finance the repayments, leading to a vicious cycle of poverty. Distinguishing between wealthy and poor clients, it was observed that only the wealthy clients benefited from the loans. The results by Coleman and Madajewicz had a similar structure in that they show the large influence of wealth. While the authors find negative or insignificant effects, if

averages were considered, there were significantly positive effects for groups with high wealth Coleman, (2001) and individual loans in Madajewicz (1999) or low wealth (group loans in Madajewicz (1999)).

In summary, the chapter presents a conceptual framework on the study based on the sustainable livelihood framework. It went on to review literature on the sustainable livelihood approach, its evolution with time and current applications in development discourse such the use of the Sustainable Livelihood Framework. It further reviewed literature on the various micro-lending methodologies (both individual and group/peer), their operational and financial organizational structures, the various approaches to group lending such as the Solidarity Group and the Community-Based Organizations (CBOs). Literature was reviewed on such as Village Banking, Revolving Loan Funds, Savings and Credit Associations, the Rotating Savings and Credit Associations (ROSCAs), the Accumulating Savings and Credit Associations (ASCA), the Credit with Education (CwE) and the Village Savings and Loans Associations (VSLA). Their relevance to rural livelihoods was also captured. The chapter also presents literature on theories of microfinance that addresses specifically the reduction of cost of loan monitoring, screening and enforcement through group lending and those exploring impact pathways of microfinance on enterprises, households, and individuals. These theories included the traditional view of the usurious monopolistic moneylender, the perfectly competitiveness of rural financial markets, the theory of the imperfect information paradigm and the psychological theory which sought to distinguish between traditional capitalist ventures and the microfinance entrepreneur. The chapter further reviewed literature on the nature of rural financial markets and rural livelihoods, the financing of rural livelihood

strategies (micro-and small-scale enterprises), innovations in the financing of these livelihood strategies and finally the impact of microfinance on rural livelihoods generally, women empowerment in particular and profitability of service providers. The next chapter presents the methodology used for the study including such as the research design, study population, sample size, data collection, and data analysis.

## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

The first part of this chapter describes the research design, the study population and sampling procedure. The methods of data collection (both primary and secondary) data analysis for each of the objectives are also extensively explained.

#### 3.1 Research Design

The study employed the survey research in which triangulation was embedded to achieve a ‘mixed method approach’. Triangulation or multiple strategies according to Bryman (1992) is a method that is used to overcome the problems associated with researches that rely on only one theory. Thus, it enabled the weaknesses of one to be mitigated by the other. Mikkelsen (1995) also emphasized that triangulation is used to overcome the problems associated with researches that rely on only one theory, single method and single data set. Methodological triangulation involves “within method” triangulation in which case the same method is used on different occasions and “between method” triangulation when different methods are used in the same study. “Between methods” triangulation was employed.

Survey research according to Isaac and Michael (1997) is used to “answer questions that have been raised, to solve problems that have been posed or observed, to assess needs and set goals, to determine whether or not specific objectives have been met, to establish baselines against which future comparisons can be made, to analyze trends across time and generally to describe what exists, in what amount and in what context”. Furthermore, Kraemer (1991) identified three distinguishing characteristics of survey research. First, survey researches quantitatively describe specific aspects of a given population which involve examining the relationships among variables.

Secondly, data required for survey research are extracted from people and therefore subjective. Finally, a selected portion of the population is used and findings later generalized.

Furthermore, Pinsonneault and Kraemer (1993) defined a survey as a “means for gathering information about the characteristics, actions, or opinions of a large group of people”. They can also be used to assess needs, evaluate demand and examine impact (Salant and Dillman, 1994). Thus, the strengths of surveys are that it can be used for obtaining information from large samples of the population and well suited for gathering demographic data that describe the composition of the sample (McIntyre, 1999). Surveys can illicit information about attitudes that are otherwise difficult to measure using observational techniques (Ibid). Additionally, surveys are inclusive in the types and number of variables that can be studied, require minimal investment to develop and administer and are relatively easy for making generalizations (Bell, 1996). These strengths made the survey research most suitable for the study. However, surveys are not without limitations. They only provide estimates for the true population and not exact measurements (Salant and Dillman, 1994) and are generally unsuitable where an understanding of the historical context of phenomena is required (Pinsonneault and Kraemer, 1993). Bell (1996) also observed that biases may occur, either in the lack of response from intended participants or in the nature and accuracy of the responses that are received. Other sources of error include intentional misreporting of behaviors by respondents to confound the survey results or to hide inappropriate behavior. Finally, respondents may have difficulty assessing their own behavior or have poor recall of the circumstances surrounding their behavior.

### **3.3 Population**

For the VSL Associations there were 115 groups at the time of the study, composed of approximately 30 members each. Out of this number, 15 groups were estimated to have existed for 4 years or more. With regards to the Credit with Education (CwE) groups on the other hand, there were also about 250 groups at the time of the study with a membership each of approximately thirty. This calculated gives population of about 3450 for the VSLA and 7,500 for the CwE.

### **3.4 Sample Size**

Sampling according to Wilmot (2005) is the act, process, or technique of selecting a suitable sample or a representative part of a population for the purpose of determining parameters or characteristics of the whole population. The purpose of sampling is to draw conclusions about populations from samples using inferential statistics which enables us to determine a population characteristics by directly observing only a portion (or sample) of the population. A sample is obtained rather than a complete enumeration (a census) of the population for many reasons. Wilmot (2005) further explained that sampling is done in a wide variety of research settings and enumerated a few of the benefits of sampling. They include reduction in costs as it is relatively less costly to obtain data for a selected subset than an entire population. Speed and greater scope form the others. However, the small-scale approach only works if the researcher has a strong sampling strategy (Ritchie and Lewis, 2003). The comparative nature of the study between the VSLA and the CwE makes it imperative that the sample size for each category is representative. Thus, convenience samples of 101 respondents for each category were carried out. In each category however, the groups from which the respondents were chosen were clustered into those within the

Bawjiase township and those from communities **not** within the Bawjiase township and further stratified into old (4 years and above) and new (less than 4years).

In the face of limited resources and time constraints, a total sample of 202 respondents were interviewed i.e. 101 from the VSLA and 101 from the CwE. One focus group discussions were conducted with 33 members each of the CwE and the VSLA. In addition, all Credit Officers in the case of the CwE and Facilitators with the VSLA were also interviewed as key informants in order to triangulate and validate findings.

### **3.5 Data Collection**

The approach adapted in this study views research as a process of interaction between theory and methodology. According to Crosbie Walsh (2005:93) “methodology is a means for generating data to be used in testing hypothesis which derives from theory where applicable, the testing of the hypotheses leads to recasting of theory and emergence of new theoretical paradigms”. Similarly, Mikkelsen (2005) argues for a closer relationship between methodology and theory. According to her, advancing a set of hypotheses, which data generated by a given methodology cannot test, would be futile exercise. This study used a variety of data collection techniques and sources of information (primary and secondary) to collect both qualitative and quantitative data. Multiple strategies or triangulation were used and different people were asked the same questions in different settings so as to reduce the chances of ending up with biased interpretations.

#### **3.5.1 Primary Data Collection**

The primary data were collected from the field survey. Closed and open-ended questions were the main method used in collecting quantitative data while in-depth

interviews, focus group discussions (FGDs) and direct observations were used in obtaining the qualitative data. Key informant interviews with women group leaders, Credit Officers and Facilitators for the CwE and the VSLA respectively were conducted in order to obtain information such as the operations of the credit schemes, criteria for group formations, interest rates on loans and other general information relevant for the research. Group discussions were also conducted with entire groups using semi-structured questionnaires and checklists and/or guides. Tools from the Participatory Rural Appraisal tradition were mostly employed. Semi structured interviews (SSIs) was the dominant research tool used with focus groups composed on the basis of gender, age and social status in determining those local factors that leverage poverty and reduce vulnerability. The multiple dimensions of sustainability (environmental, social, institutional and economic) and the difficult decisions about trade-offs between these were explored.

### **3.5.2 Secondary Data Collection**

In order to improve the quality of the discussions, provide explanations as well as to supplement the primary data, secondary data was sourced from both published and unpublished sources including journals, articles, books, official reports and the internet. In addition, desk review of literature on the CwE and the VSLA were carried out. Furthermore, evaluation studies of the CwE and the VSLA programmes were also reviewed.

### **3.7 Data Analysis**

For quantitative survey data, wherever appropriate, Chi Square tests or the students' test were carried out to determine, whether or not, statistically significant differences exists between the members of the CwE and the VSLA with regards to the variables being compared. A two tailed probability level of between 0.001 and 0.05 was

considered as been statistically significant difference between clients of the CwE and the VSLA.

Descriptive statistics such as tables, bar charts were used in analyzing objective one. However, the chi-square was used mostly in the determination of statistically significant differences between clients of the CwE and the VSLA models with regards to indicators being measured. Also, the differences in terms of the influences of social intermediation services on livelihood strategies of respondents of the two categories in objective three (3) were also analyzed using the chi square.

Furthermore, for the comparative analysis of the outcomes of the social intermediation services on livelihood strategies of respondents of the two categories, the chi square was again employed to allow for comparison. Focus group discussions with at least groups of about 33 members drawn from the CwE and the VSLA were conducted. Key informant interviews with staff of implementing agencies (Credit Officers of the Bawjiase Area Rural Bank and Facilitators from Plan Ghana and partner LNGOs) as well as group leaders were also conducted in order to validate findings and enrich discussions.

Pair-wise rankings were then used to enable weighing between opposing indicators and to limit the temptation of rigidly defending initial suggestions of impact. The next chapter deals with the results of the research findings and their discussions thereof.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

The chapter presents the empirical results of the study. First, it presents a description of the socio-economic backgrounds of respondents from the Credit with Education (CwE) and the Village Savings and Loans (VSL) in the Awutu district of the Central Region of Ghana. The chapter then goes on to identify common financial and social intermediation services offered in the two categories so as to enable comparison. It further assesses the collective influences of these services on the livelihood strategies as well as the resulting outcomes and impacts on respondents comparatively.

#### **4.2 Socio-Economic Characteristics of Clients**

This section uses frequency tables and bar charts to describe the sex, age, marital status, educational levels and number of years respondents had stayed with their respective programmes.

##### **4.2.1 Sex of Respondents**

From table 4.1, from a total of 101 respondents of the CwE, only 10 were male and 91(90.1%) were female. Also, out of 101 respondents of the VSLA, 33 representing 32.7% were male and 68(67.3%) were female. This conforms to the findings of Jan and Maes, (2012) that as of December 31, 2010, 3,652 microfinance institutions reported reaching over 205million clients. From this number, over 137million was among the poorest when they took their first loan. Of these poorest clients, 82.3 percent were women. The findings are further consistent with studies that women constitute the greater percentage of the marginalized in society who most often do not have access to financial services (Opare, 2005; Jones and Sakyi-Dawson, 2002;

Duncan, 1997) and that improving women's access to financial services particularly credit is an important step towards poverty reduction (Littlefield, Murdugh and Hashemi, 2003).

**Table 4.1 Sex of Respondents**

Program Type	Sex	Frequency	Percent
CwE	Male	10	9.9
	Female	91	90.1
	<b>Total</b>	<b>101</b>	<b>100</b>
VSLA	Male	33	32.7
	Female	68	67.3
	<b>Total</b>	<b>101</b>	<b>100</b>

*Source: Field Data (May, 2012)*

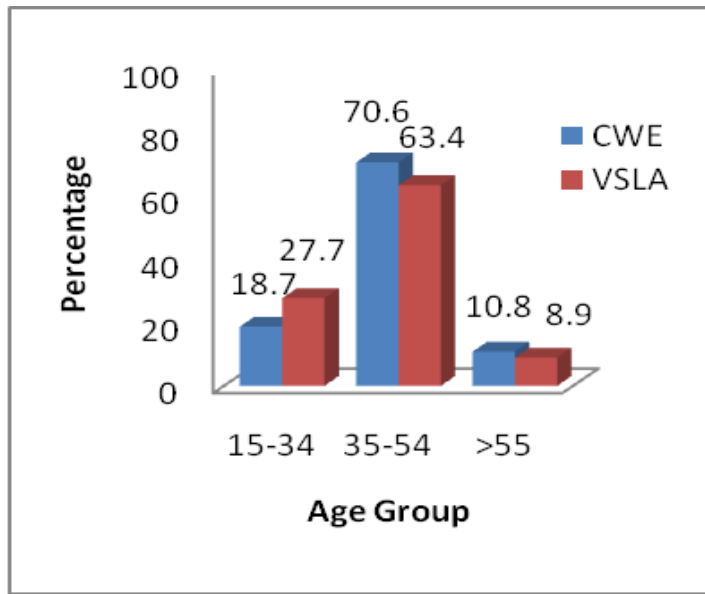
The existence of men in the CwE groups is a new development from the target of women in the original concept. It also explains the number of years the CwE programme has been operational in order to allow for this development of including men micro entrepreneurs.

#### **4.2.2 Age Groups of Respondents**

Figure 4.1, indicates that, nineteen (19) clients (18.7%) from a total of 101 CwE respondents were in the lower third age group of between 15 and 34years. Seventy two (70.6%) however formed the majority in the middle third age group of between 35-54year olds. Only 11 respondents representing 10.8% were in the upper third i.e. 55 and/or above 65 years. Also, figure 4.1 shows twenty eight respondents (27.7%) from a total of 101 of the VSLA were in the lower third age group with the majority 63.4 per cent in the middle third and only nine (8.9%) in the upper third age group of between 55 and 65 years or above.

This meant that, most clients in both groups were among the economically active age group of 35-54 years. The result is consistent with most definitions of microfinance as providing credit, savings and micro insurance to the economically active poor.

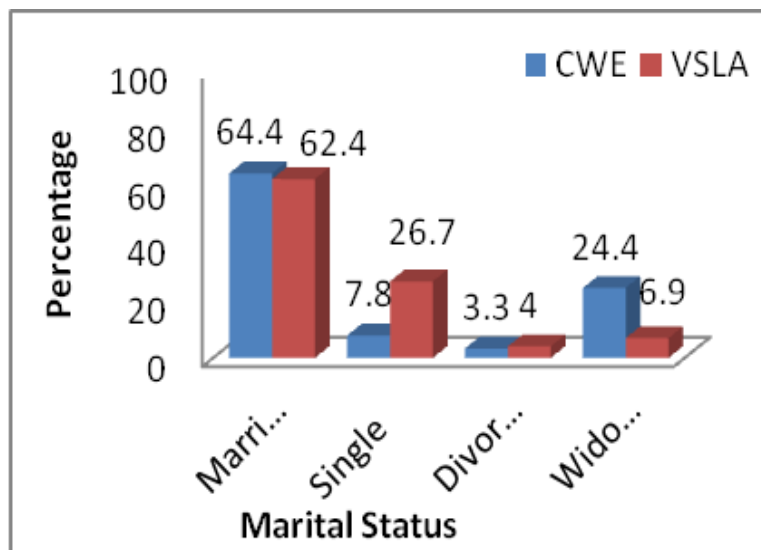
**Figure 4.1 Age groups of respondents**



*Source: Field Data (May, 2012)*

#### **4.2.3 Marital Status**

Figure 4.2 illustrates the marital status of respondents in the two microfinance models. The majority of clients interviewed in both categories were married. Out of a total of 90 respondents of the CwE, fifty-eight (64.4%) were married. Also, out of 101 VSLA respondents, sixty-three (62.4%) reported been married. However, seven CwE respondents (7.8%) and twenty-seven VSLA respondents (26.7%) were single. Furthermore, 3 and 4 respondents representing 3.3% and 4% of the CwE and VSLA respectively were divorcees. In addition, 22 respondents (24.4%) of the CwE and seven (6.9 %) of the VSLA were widowed.

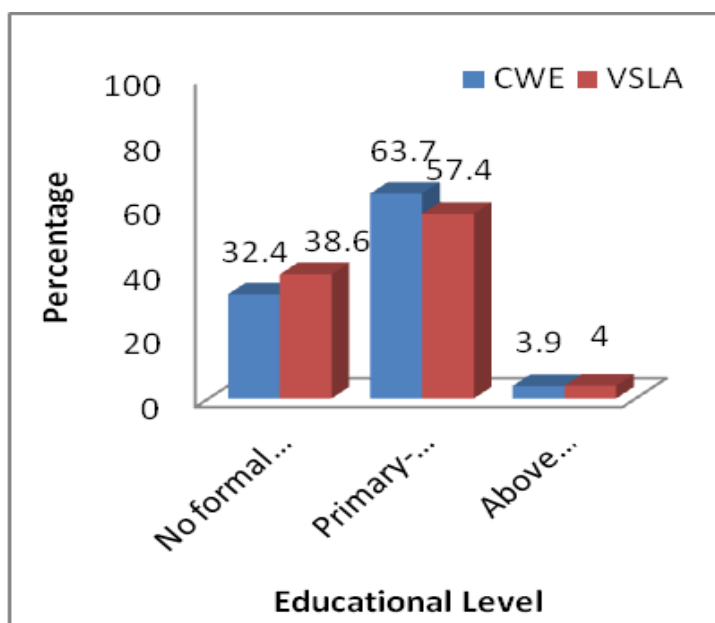
**Figure 4.2 Marital Status of Respondents**

Source: Field Data, May, 2012

#### 4.2.4 Educational levels of Respondents

Figure 4.3 shows that the majority of respondents, 65 (63.7%) from a total of 101 and 58 (57.4%) out of 101 of the CwE and the VSLA groups respectively had formal education between primary and middle or Junior High School. The percentages of those with formal education beyond middle/JHS were 3.9% and 4% for the CwE and VSLA respectively.

However, 33 (32.4%) and 39 (38.6%) of the CwE and the VSLA respondents respectively had no formal education. This meant that more than half of clients from each category had some form of formal education at the basic level. This confirms the fact that “savings-led” microfinance are modeled to alter development equations in marginalized communities and groups by providing members with the means to cope with emergencies, build capital, and re-create social dynamics that support genuine self-reliance.

**Figure 4.3 Educational Levels of Respondents**

*Source: Field Data, May, 2012*

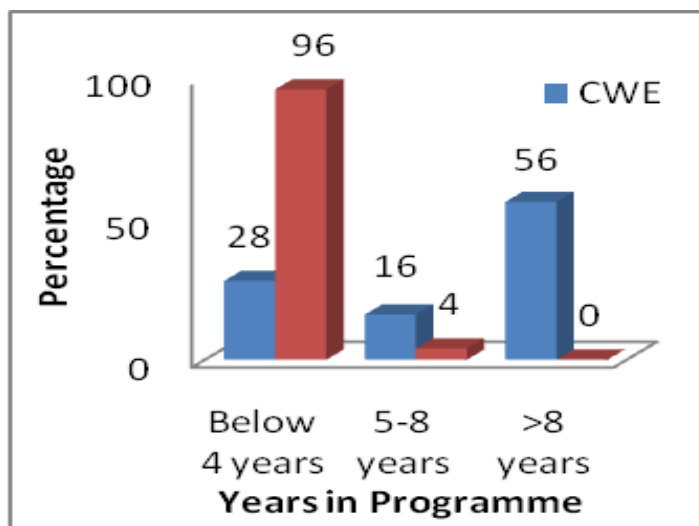
#### **4.2.5 Clients Years in Programme**

On the number of years clients had stayed with their respective programme, the results presented in figure 4.4 shows that whilst 28% of the CwE and 96% of the VSLA had stayed in the programme below four (4) years, 16% of the CwE and only 4% of the VSLA had stayed in their respective programme for between 5 and 8years. However, 56% of the CwE clients had stayed for more than eight years. None of the VSLA clients had stayed more than 8 years. This confirms the fact that the VSLA programme was initiated in much later years following the implementation of the CwE programme with the BARB.

It also confirms Nair and Fissaha (2010) assertion that “before the late 1970s, rural dwellers in Ghana had almost no access to institutional credit for farm and non-farm activities, and in many rural communities, secure, safe and convenient savings and

payment facilities hardly existed” and thus rural communities of the Awutu district were no exception.

**Figure 4.4 Respondents Years in Programme**



*Source: Field Data, May, 2012*

### 4.3 Social Intermediation Services in Programmes

Most microfinance methodologies including ‘savings-led’ models such as the CwE and the VSLA involve both financial and social intermediations. The study identified nine social intermediation services offered in both programme groups. The most common been the business development services. These were all consistent with the methodologies of the two models which sought to integrate education with village bank meetings in the extension of microfinance services. Bar charts were mostly used in presenting the levels of usefulness or otherwise of the identified social intermediation services so as to enable comparison on client’s livelihood strategies and outcomes.

**Table 4.2 Identified Social Intermediation Services in Programmes**

Social Intermediation Service	Offered in CwE Programme	Offered in VSL Programme
Business Development	Yes	Yes
Gender Training	Yes	Yes
Reproductive Health	Yes	Yes
Diarrhoea Prevention and Management	Yes	Yes
Breastfeeding	Yes	Yes
Infant and Child Feeding Practices	Yes	Yes
HIV/AIDS Prevention and Management	Yes	Yes
Malaria Prevention and Management	Yes	Yes
Family Planning Trainings	Yes	Yes

#### 4.3.1 Business Development and Gender Training

Figure 4.5 presents the percentages of responses of clients of both the CwE and the VSL to the usefulness of the business development trainings such as acquiring a loan, importance of savings, budgeting, adding value, inventory management, investing to earn profit, selling strategies, market evaluation, record keeping, calculating profit and loss, customer relations, product pricing and diversifications. Whilst 9.5% of 95 respondents and 3.1% of 98 respondents of the CwE and VSL respectively said the business development training offered nothing new to their existing knowledge, attitudes, practices and skills regarding their livelihood strategies activities. The majority, 90.5% and 96.9% of the CwE and VSL respectively however, confirmed the usefulness of the different skills and knowledge acquired to their livelihood strategies

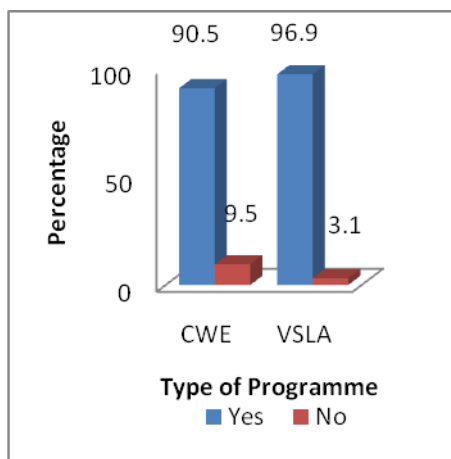
and outcomes. This meant the majority of clients in both categories recognized the importance of the business development trainings as search for livelihoods.

This conform to the findings reported in Simanowitz (2002) that three-fourths of clients who participated in SHARE programmes in India for longer periods saw significant improvements in their economic well-being (based on sources of income, ownership of productive assets, housing conditions, and household dependency ratio) and that half of the clients graduated out of poverty. There were also marked shift in employment patterns of clients—from irregular, low-paid daily labor to diversified sources of earnings, increased employment of family members, and a strong reliance on small businesses.

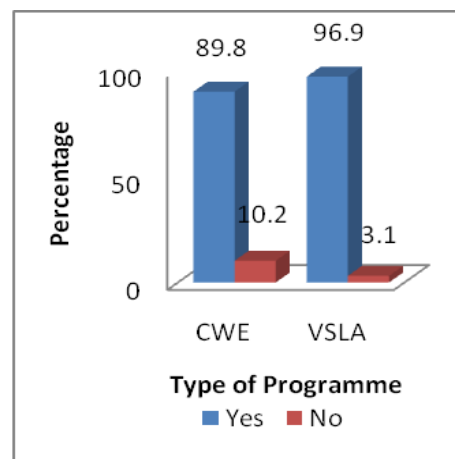
With regards to gender trainings, especially that of self-esteem and what women can do to improve their participation in the household decision-making process, figure 4.6 indicates that from a total of 98 respondents in each case, 89.8% and 96.9% of the CwE and VSL respectively agreed that topics taught were useful in shaping gender relationships within their households and had positive influence on the collective household search for livelihood. Only 10.2% of the CwE and 3.1 % of the VSL respondents said it made no changes to their existing household gender relations. This therefore meant that the majority of clients in both groups agreed that trainings on gender were useful and this conform to the findings of MKNelly and Dunford (1998; 1999) who found that in Ghana and Bolivia programme participation led to increased self-confidence in women and improved status within the community. While participants in Ghana played a more active role in community life and community ceremonies, participants in Bolivia were actively involved in local governance. Also, the findings is consistent with that of Hulme and Mosley (1996) that microfinance

projects can reduce the isolation of women as when in groups they have an opportunity to share information and discuss ideas and develop a bond that hitherto was absent.

**Figure 4.5 Business Development**



**Figure 4.6 Gender Trainings**

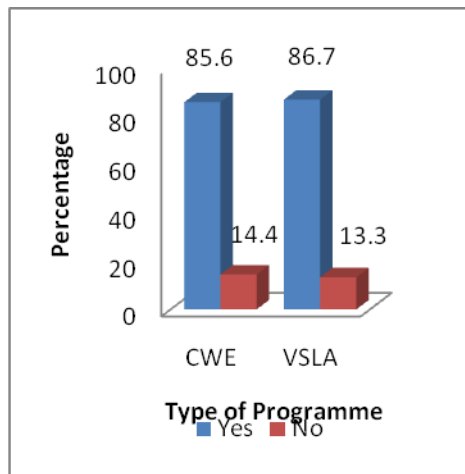
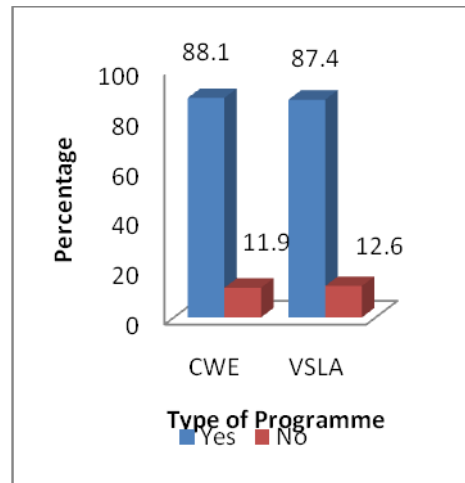


*Source: Field Data, May, 2012*

### 4.3.2 Reproductive Health and Family Planning

Figure 4.7 also presents the percentages of responses of the CwE and the VSL on the usefulness or otherwise of reproductive health trainings to participants livelihood strategies and activities. Only 14.4% of 97 CwE respondents and 13.3% out of 98 respondents of the VSL disagreed that the trainings were useful in shaping their search for livelihoods.

However, much larger percentages, 85.6 % of the CwE and 86.7% of the VSL respondents agreed that the trainings were useful and had influenced not only their livelihood strategies and activities but also their relationship with their partners and adolescent children in particular. Thus, the inclusions of reproductive health trainings were perceived as beneficial by clients of both the CwE and the VSL programme participants.

**Figure 4.7 Reproductive Health****Figure 4.8 Family Planning**

*Source: Field Data, May, 2012*

Additionally, figure 4.8 also presents the percentages of respondents in both categories the usefulness of family planning trainings to their search for livelihoods. While 88.1% of 89 respondents of the CwE and 87.3% of 83 respondents of the VSL confirmed the usefulness of trainings in family planning to their daily search for livelihood, only 11.9% and 12.6% of the CwE and the VSL respectively answered in the negative. It can therefore be conveniently concluded that the majority of clients in both groups appreciated the benefits of the reproductive health and family planning trainings to their search for livelihoods. However, the findings contrasted sharply with that of Sakyi-Dawson et al. (2007) that most women in the Manya Krobo district participating in CwE programmes did not patronize family planning services due mainly to misconception of the effects of contraceptive methods. These were that they cause infertility and led to promiscuous lifestyles of practicing women. Possible explanation for the variances could stem from the existence a vibrant mass media and easy access to information especially from the radio and television and the proximity of the Awutu district to the national capital (Accra) coupled with frequent mobility of clients to and fro for commerce.

In the same vein however, the results conform to Sachs (2005) who visited a BRAC project and was amazed to find that women he spoke to had only one or two children, when he was expecting them to have five or six as he had become accustomed to for Bangladeshi women. When he asked those with no or one child how many children they would like to have, the majority replied two which he later called a “demonstration of a change of outlook”. He referred to a new spirit of women’s rights, independence and empowerment among clients, showing the positive empowerment effects the project has had on the women. Another survey of microfinance clients in Bangladesh by Schuler and Hashemi (1994) indicated that rates of contraceptive use were significantly higher for Grameen clients (59 percent) than for non-clients (43 percent). Similar findings of increased contraceptive use were reported in a later study by Rahman, DaVanzo and Razzaque (2000). This was attributed generally to greater awareness of contraceptive programmes gained by attending group meetings and from increased mobility that allows women to seek out such services.

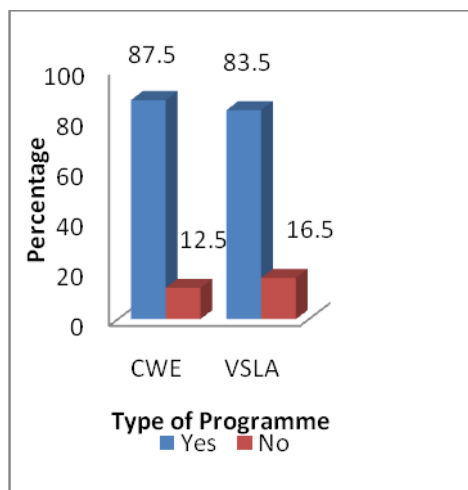
#### **4.3.3 Infant/Child Feeding and Diarrhoea Management Training**

For infant/child feeding, figure 4.9 presents the percentages of respondents of both the CwE and the VSLA on the usefulness of infant/child feeding. From a total of 96 CwE respondents, it illustrated that 87.5% confirmed the usefulness of the trainings in their daily search for livelihoods. Also, from a total of 97 VSLA respondents 83.5% answered in the affirmative regarding its influence on their livelihood strategies and activities. As was expected, only 12.5% and 16.5% of the CwE and the VSLA respondents respectively answered no to the usefulness of the child and infant feeding trainings on their livelihoods. This meant that the majority of respondents of both

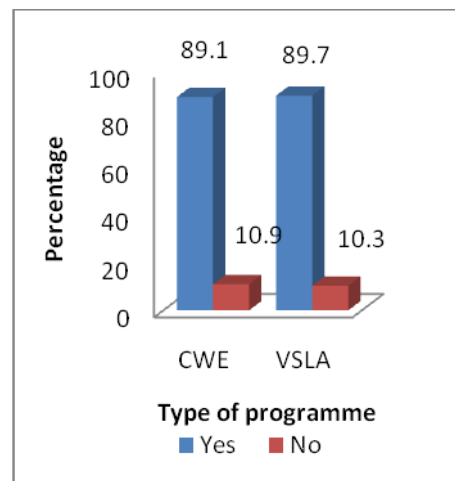
groups agreed that trainings on child and infant feeding were useful in their search for livelihoods. It therefore meant that client's had positive perception that knowledge of and the adoption of appropriate feeding practices contributed positively to the nutrition and health of children especially related to diarrhoea. This conforms to the findings of Sakyi-dawson et al. (2007) that participating in the CwE programme for at least 6 cycles had positive significant effects on children nutritional status among the Asewewa communities in the Eastern Region of Ghana. Moreover, a study by MKNelly and Dunford (1998) found that Freedom from Hunger clients in Ghana had better breast-feeding practices, and their one-year-old children were healthier than non-client children in terms of weight-for-age and height-for-age.

Regarding diarrhoea prevention and management trainings on the other hand, figure 4.10 also presents the percentages of respondents of both the CwE and the VSLA on the usefulness or otherwise to their livelihood searches.

**Figure 4.9 Child feeding**



**Figure 4.10 Diarrhoea Management**



*Source: Field Data, May, 2012*

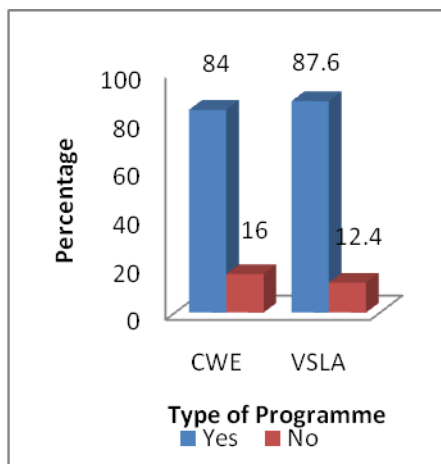
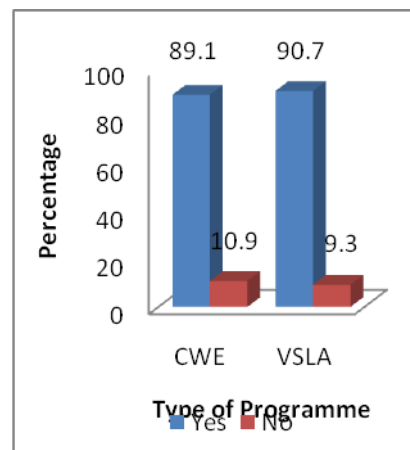
From a total of 101 respondents of the CwE, it indicated that 89.1% answered 'yes' to the usefulness of diarrhoea management and prevention trainings on the welfare of

children in particular and their households search for livelihoods in general. For the VSLA respondents on the other hand, out of ninety-seven, 89.7% also agreed to the usefulness of the trainings in their search for livelihoods. Only 10.9% and 10.3% of the CwE and the VSLA respondents respectively disagreed to the usefulness of diarrhoea management and prevention trainings on their livelihood strategies and activities.

The findings conform to that of Barnes et al. (2001) that clients in the FOCCAS microfinance programme in Uganda, who received health care instructions on breastfeeding, preventive health, and family planning, had much better health-care practices than non-clients and that ninety-five percent of clients engaged in some improved health and nutrition practices for their children compared to 72 percent of non-clients.

#### **4.3.4 HIV/AIDS and Malaria Prevention Trainings**

Regarding HIV/AIDS, respondents were asked such questions as causes of HIV/AIDS, how to avoid getting infected e.g. the ABC method, treatment of infected persons including non-stigmatization, and care giving. From a total of 100 CwE and 97 VSLA respondents, 84% and 87.6% respectively agreed that the content of trainings in this direction were useful in helping them understand the pandemic and how to avoid getting infected. Most agreed they practice safer sex as a result and are able to negotiate safer sex with partners. This they consent made them remained healthier and obviously impacted their search for livelihoods. Only 16% and 12.4% of the CwE and the VSLA respondents respectively said the trainings added nothing new and different to their existing knowledge on the pandemic and how it can affect their livelihoods strategies and outcomes.

**Figure 4.11 HIV/AIDS prevention****Figure 4.12 Malaria prevention**

*Source: Field Data, May, 2012*

Thus, the majority of clients in both categories perceived the topics taught on HIV/AIDS as useful in their search for livelihood. This is also consistent with the findings of Barnes et al, (2001) that thirty-two per cent of clients in the FOCCAS microfinance programme in Uganda had tried at least one AIDS-prevention practice compared to 18 percent for non-clients.

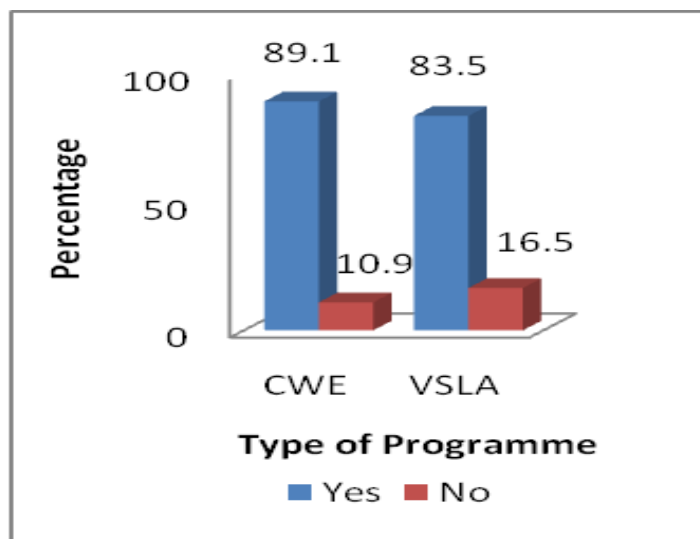
On the usefulness of malaria prevention and management trainings to clients search for livelihoods, figure 4.12 presents the findings. Whilst 89.1% of 101 CwE and 90.7% of ninety-seven VSLA respondents said the trainings offered were useful in their understanding of how malaria is spread and measures to adopt to prevent its spread and mitigate its impact on their livelihoods. Only 10.9% and 9.3% for the CwE and the VSLA respectively disagreed that the trainings added to their existing stock of knowledge and how it affects their livelihoods.

#### **4.3.5 Breastfeeding**

Last but not the least, an exploration of breastfeeding trainings and its usefulness among respondents in both groups revealed in figure 4.13 that from a total of 101CwE

respondents, 89.1% agreed that the trainings were useful and relevant especially when it came to the practice of exclusive breastfeeding for the first six months which they admitted helped reduced diarrhea incidences in infants. From FGDs, the men agreed that there were significant reduction in diarrhea related illnesses with the newborns when their wives practiced exclusive breastfeeding for the first six months and this had positive impacts on the households search for livelihood. Also, from 95 VSLA respondents on the other hand, 87.4% said it was useful in minimizing diarrhoea related illnesses in their children. Only 11.9% and 12.6% of the CwE and VSLA respectively, however answered to the contrary to how it affects their search for livelihoods.

**Figure 4.13 Breast Feeding**



*Source: Field Data, May, 2012*

These findings were consistent with that of MckNelly and Dunford (1999) impact study of CRECER in Bolivia that providing basic health education along with financial services showed clients had better breast-feeding practices, were more likely to give rehydration therapy to children with diarrhea, and had higher rates of DPT immunization for their children.

MckNelly and Dunford (1998) also found clients of FFH Ghana exhibited significant positive changes in a number of health practices—breast-feeding immediately after birth (so newborns get colostrums), introduction of liquids and first foods to infants, and giving rehydration therapy to children with diarrhoea than non-clients.

#### **4.4 Comparative Analysis of the Social Intermediation Services on Respondents Livelihood Strategies and Outcomes.**

The study concluded that the business development trainings represented the most influential social intermediation service perceived by respondents in both categories to have the most impact on their livelihood strategies and outcomes. With 90.5 % of the CwE and 96.9% of the VSLA clients answering ‘yes’, it indicated the highest numbers of clients asserting topics covered were essential to success of livelihood strategies and activities. However, chi-square test of statistical significance of all nine identified social intermediation services, only gender trainings were significant with a chi square value of 4.307 and a p-value 0.045 for the range  $0.044 \leq P \leq 0.05$ . That of business development, reproductive health, diarrhoea management and prevention, breastfeeding, malaria prevention and management, family planning and HIV/AIDS showed no significant differences, statistically between clients of the VSLA and CwE for the range  $0.065 \leq P \leq 0.894$ .

Possible reasons for the difference could stem from the modalities of trainings, the technical competence of implementing agency staff on gender issues or client social characteristics leading to increased gender-awareness and therefore positive practice outcomes.

**Table 4. 2 Chi Square Test of Significance of Social Intermediation Services**

Nature of Non-Financial Service	Resp.	CwE		VSLA		$\chi^2_{Cal}$	P-Value	D F
		Freq.	%	Freq.	%			
Business Development Training	No	9	9.5	3	3.1	3.402	0.065	1
	Yes	86	90.5	95	96.9			
Gender Training	No	10	10.2	3	3.1	4.037	0.045	1
	Yes	88	89.8	95	96.9			
Reproductive Health Trainings	No	14	14.4	13	13.3	0.056	0.813	1
	Yes	83	85.6	85	86.7			
Diarrhoea Management	No	11	10.9	10	10.3	0.018	0.894	1
	Yes	90	89.1	87	89.7			
Breastfeeding Training	No	11	10.9	16	16.5	1.319	0.251	1
	Yes	90	89.1	81	83.5			
Infant and Child Feeding	No	12	12.5	16	16.5	0.621	0.431	1
	Yes	84	87.5	81	83.5			
HIV/AIDS Prevention Training	No	16	16.0	12	12.4	0.532	0.466	1
	Yes	84	82.4	85	87.6			
Malaria Prevention/Management	No	11	10.9	9	9.3	0.142	0.707	1
	Yes	90	89.1	88	90.7			
Family Planning	No	12	11.9	12	12.6	0.026	0.873	1
	Yes	89	88.1	83	87.4			

Source: Field Data May,2012

$0.00 \leq P \leq 0.05$

#### 4.4 Influence of Social Intermediation Services on Livelihood Strategies

Microfinance products are useful in safeguarding poor households against extreme vulnerabilities that characterizes everyday existence of the poor. Micro-loans, savings, and insurance help smooth out income fluctuations and maintain consumption levels even during lean periods. Studies have shown that these non-financial services leverages the financial services positively and in the long run the living standards of

clients. For example, a longitudinal study in a BRAC area in Bangladesh found that basic competency in reading, writing, and arithmetic among children 11–14 years old in member households had increased from 12 percent of children at the start of the program in 1992 to 24 percent in 1995. In non-member households, only 14 percent of children could pass the education competency tests in 1995 (Chowdhury and Bhuiya, 2001).

In a comparative analysis of the influence of “savings-led” microfinance models such as the CwE and the VSLA that combine financial and social intermediation services on the livelihoods of clients, it is imperative to determine whether or not significant differences exists between clients of the two groups as search for livelihoods. The results of a cross tabulation of the identified livelihood strategies between the two groups using the chi-square test is as presented in table 4.3. Those livelihood strategies showing significant differences included agro-forestry, waged-labour and cottage industry. On the influence of trainings on crop farming, the chi-square result of 0.122 and a p-value of 0.726 shows that there exist no significant differences between respondents of the two groups for the range  $0.00 \leq P \leq 0.05$ .

The same can be said of the animal rearing with a chi-square value of 1.502 and a corresponding p-value of 0.220. Others were agro-processing, fish mongering, services, migrated to work and commerce /petty trading. Significant differences however occurred with regards to agro-forestry, waged-labour and cottage industry with chi-square values of 6.907, 7.500 and 8.140 respectively and corresponding p-values of 0.009, 0.006 and 0.004 for the range  $0.00 \leq P \leq 0.05$ . This means that the perception of clients in both groups regarding the influence of the social intermediation services on livelihood strategies such as crop farming, animal farming,

agro-processing, fish mongering, migration to work and commerce/petty trading were almost same. This suggests that the variances may either stem from the training methodologies employed by the service providers or the predominant type of livelihood strategies engaged in by clients in each category. The findings of no significant differences in animal rearing practices between respondents of the CwE and VSLA confirms conclusions of Ashley and Nanyeena (2002) that in many rural areas livestock provides for easy asset accumulation, maintains social capital (when shared, lent, or given out), meets financial needs and are a means of security in times of emergency. Generally, findings on the livelihood strategies conform to the findings of MkNelly and Dunford (1998) that Freedom from Hunger clients in Ghana had significantly diversified their income sources with 80 percent of clients having secondary sources of income as against 50 percent of non-clients.

This also confirms the findings of Nair and Fissaha (2010) that clients of microfinance in Ghana generally include women micro-entrepreneurs, small farmers, the landless and smallholders, resettled persons, indigenous persons, and low-income persons in remote or subsistence areas and that rural enterprises in Ghana are largely made up of family groups, individual artisans, women engaged in food production and processing from local crops with major activities such as soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro-processing, chemical based products and mechanics (*Ibid*). It further confirms the findings of Littlefield et al. (2003) that microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger.

**Table 4.3 Influence of Social Intermediation Services on Livelihood Strategies**

<b>Influence of Trainings on Livelihood Strategies</b>	<b>Resp.</b>	<b>CwE</b>		<b>VSL</b>		$\chi^2_{\text{cal}}$	<b>p-value</b>	<b>Df</b>
Crop farming	No	53	52.0	50	49.5	0.122	0.726	1
	Yes	49	48.0	51	50.5			
Livestock farming	No	70	68.6	61	60.4	1.502	0.220	1
	Yes	32	31.4	40	39.6			
Agro-processing	No	76	74.5	67	66.30	1.628	0.202	1
	Yes	26	25.5	34	33.70			
Fish Mongering	No	86	84.3	94	93.1	3.872	0.049	1
	Yes	16	15.7	7	6.9			
Agro-forestry	No	87	85.3	97	96.0	6.907	0.009	1
	Yes	15	14.7	4	4.0			
Waged Labour	No	60	58.8	40	39.6	7.500	0.006	1
	Yes	42	41.2	61	60.4			
Migrated to Work	No	59	57.8	55	54.5	0.237	0.627	1
	Yes	43	42.2	46	45.5			
Services(tailoring, hair dressing, etc)	No	38	37.3	31	30.7	0.974	0.324	1
	Yes	64	62.7	70	69.3			
Commerce/petty trading	No	30	29.4	19	18.8	3.114	0.078	1
	Yes	72	70.6	82	81.2			
Cottage Industry	No	35	34.3	17	16.8	8.140	0.004	1
	Yes	67	65.7	84	83.2			

Source: Field Data May, 2012

$0.00 \leq P \leq 0.05$

#### **4.5 Social Intermediation Services on Livelihood Outcomes of Clients.**

This section presents findings on whether or not there exist significant differences among respondents of the CwE and the VSL regarding the influence of the identified social intermediation services on their enterprise level outcomes, personal level savings, enterprise skills and household welfare (housing improvements, diet and coping with difficult times). The section concludes with an analysis of the cumulative impacts of both the financial and social intermediations on respondents' enterprises and livelihoods in general.

#### 4.5.1 Enterprise Level Outcomes

Table 4.4 presents the cross tabulated results of some identified enterprise level outcomes on the livelihood strategies of respondents. The chi-square test showed that significant differences exist between respondents of the CwE and the VSL in the areas of being able to expand enterprise size; added new enterprises; improved quality of products; reduced cost by buying in larger volumes; having access to cheaper credit sources; able to sell in new markets; and invested in structures for marketing. This suggests that longer term access to financial services by one group might have resulted in these differences. These all have chi-square values ranging between 4.207 and 17.378 and corresponding p-values also ranging between 0.00 and 0.018.

These results are consistent with study of SHARE clients in India where it was documented that three-fourths of clients who participated in the programme for longer periods saw significant improvements in their economic well-being (based on sources of income, ownership of productive assets, housing conditions, and household dependency ratio) and that half of the clients graduated out of poverty. There was a marked shift in employment patterns of clients—from irregular, low-paid daily labor to diversified sources of earnings, increased employment of family members, and a strong reliance on small business. Over half of SHARE clients indicated that they had used their microenterprise profits to pay for major social events rather than go into debt to meet such obligations (Simanowitz, 2002).

On the other hand, those enterprise level outcomes that resulted in statistically insignificant differences between the two categories of clients were ability to hire more workers; purchased small tools and major tools, own means of transport; investment in storage structures and in purchased land for building purposes. The chi-

square values of these also range between 0.231 and 1.435 and with correspondingly p-values of between 0.286 and 0.858 for the range  $0.00 \leq P \leq 0.05$ .

**Table 4.4 Statistical Significance of Enterprise Level Outcomes**

Enterprise Outcomes	Resp.	CwE		VSL		$\chi^2_{\text{Cal}}$	p-value	Df
		Freq.	%	Freq.	%			
Expand enterprise size	No	37	37.8	24	24.2	4.207	0.040	1
	Yes	61	62.2	75	75.8			
Improved income	No	45	46.4	23	23.2	11.598	0.001	1
	Yes	52	53.6	76	76.8			
Hired more workers	No	40	40.8	33	33.7	1.070	0.301	1
	Yes	58	59.2	65	66.3			
Improved quality of product	No	39	40.2	57	57.6	5.915	0.015	1
	Yes	58	59.8	42	42.4			
Reduced costs by buying in larger volumes	No	31	32.0	56	57.1	12.512	0.00	1
	Yes	66	68.0	42	42.9			
Cheaper credit source	No	30	30.9	60	60.6	17.378	0.00	1
	Yes	67	69.1	39	39.4			
Sold in new markets	No	52	53.6	36	36.7	5.605	0.018	1
	Yes	45	46.4	62	63.3			
Purchased small tools	No	16	16.8	11	11.5	1.140	0.286	1
	Yes	79	83.2	85	88.5			
Purchased major tools	No	70	74.5	72	75.0	1.029	0.598	1
	Yes	23	24.5	24	25.0			
Purchased own means of transport	No	79	85.9	80	85.1	1.139	0.566	2
	Yes	12	13	14	14.9			
Invested in storage structure	No	76	85.4	79	83.2	1.435	0.488	2
	Yes	12	13.5	16	16.8			
Minor investment in marketing site	No	20	21.1	23	24.0	0.231	0.631	1
	Yes	75	78.9	73	76.0			
Invested in structure for marketing	No	63	67.0	82	84.5	8.010	0.005	1
	Yes	31	33.0	15	15.5			
Purchased land for building	No	72	79.1	77	80.2	0.034	0.853	1
	Yes	19	20.9	19	19.8			

*Source: Field Data, May, 2012*

#### 4.5.2 Personal Level Savings and Enterprise Skills Outcomes

Table 4.5 indicates the chi-square test of personal level savings and enterprise skills outcomes where the study examined the personal level savings habits of clients, their preferred places of savings and the characteristics of amounts saved of respondents

for the two models. At the enterprise skills level, the study specifically assessed respondent's knowledge of the importance of separating money for personal use from enterprise capital, having fixed locations for protection of self and merchandise from the vagaries of the weather and for production purposes and whether or not they paid themselves for working on their own enterprises. Other client level knowledge assessed included the implications of allowing credit sales, usual problems enterprise encountered, plans for changes in enterprise and implementation of plans for growth. These were then cross-tabulated and the chi-square tests conducted to determine statistical significance.

Those client level savings and enterprise skills outcomes such as the importance of separating money for personal use from that of enterprise capital, the calculation of profits from records of costs and revenues, having a fixed enterprise location for protection from the vagaries of weather, allowing credit sales and with action plans to bring about growth of enterprise all recorded significant differences for the range  $0.00 \leq P \leq 0.05$ .

On the other hand, outcome indicators that showed no significant differences at the client level when crossed tabulated included having personal savings accounts; having knowledge of products with most profits; paying self for working on own enterprise; having encountered one problem or the other in managing business and the implementation of plans to bring about growth in enterprise for the range  $0.00 \leq P \leq 0.05$ .

**Table 4.5 Savings Characteristics and Enterprise Skills Outcomes.**

Savings and Enterprise Outcomes	Resp.	CwE		VSLA		$\chi^2_{cat}$	p-value	Df
		Freq.	%	Freq.	%			
Have personal savings	No	3	3.0	1	1.0	0.960	0.327	2
	Yes	97	97.0	96	99.0			
Where clients save	Home	1	1.0	1	1.1	16.171	0.000	2
	Group	22	22.7	48	50.5			
	Bank	74	76.3	46	48.4			
Personal savings characteristics	Decreased. G.	1	1.0	0	0.0	35.61	0.000	1
	Decreased	2	2.1	2	2.1			
	Stayed Same	10	10.3	2	2.1			
	Increased	61	62.9	92	95.8			
	Increased G.	23	23.7	0	0.0			
Separating personal funds from business capital	No	24	23.5	7	7.3	9.874	0.002	1
	Yes	78	76.5	89	92.7			
Calculating profit based on records	No	14	13.9	4	4.10	5.677	0.017	1
	Yes	87	86.1	93	95.9			
Knowing products that give the most profits	No	11	10.9	8	8.3	0.369	0.543	1
	Yes	90	89.1	88	91.7			
Pay self for work on own enterprise	No	37	38.5	25	26.3	3.255	0.071	1
	Yes	59	61.5	70	73.7			
Fixed location for protection from weather	No	60	59.4	83	85.6	16.880	0.000	1
	Yes	41	40.6	14	14.4			
Fixed location for production	No	65	64.4	87	89.7	17.806	0.000	1
	Yes	36	35.6	10	10.3			
Allow credit sales	No	56	56.0	70	72.2	5.582	0.018	1
	Yes	44	44.0	27	27.8			
Problems with business	No	59	60.2	55	57.3	0.170	0.680	1
	Yes	39	39.8	41	42.7			
Planned to bring changes in business	No	11	11.2	2	2.1	6.577	0.010	1
	Yes	87	88.8	95	97.9			
Implemented changes in business	No	53	53.0	56	57.7	0.446	0.504	1
	Yes	47	47.0	41	42.3			

Source: Field Data, May, 2012

\* $P < 0.05$  Significant

#### 4.6 Comparative Analysis of Household Level Welfare Outcomes

This section presents a comparative analysis of household level welfare outcomes of the CwE and the VSLA respondents such as housing and housing improvements, number of children in school and their highest levels attained, households access to health care using membership of the National Health Insurance Schemes (NHIS) as proxy, household dieting characteristics, having to eat less due to less cash inflows, cash to conduct livelihood strategies, and ability to repay loans.

#### 4.6.1 Comparative Analysis of Household Welfare Outcomes (Housing and Housing Improvements)

Table 4.6 indicates the house welfare outcome of housing and housing improvements. Whiles 75 respondents (76.5%) out of 98 of the CwE live in their own homes, only 23 (23.5%) live in rented apartments. Closely, 72 respondents (75%) out of 96 of the VSLA also live in their own homes with only 25% renting. Therefore, the chi-square value of 0.062 and a corresponding p-value of 0.804 showed no statistical significant difference between the two groups regarding numbers living in own homes and those living in rented apartments.

On whether or not respondents carried out repairs and maintenance works on their homes, whilst forty nine (49) respondents (55.1%) from a total of 89 of the CwE said they have not, 40 respondents (44.9%) did carried out repairs and maintenance. The VSLA groups showed the reverse, with 40 (44.9%) saying they did not carry out any maintenance and 49 respondents (55.1%) saying they did. Thus, the chi-square value of 1.820 and a corresponding p-value of 0.177 showed that, statistically no significant difference exists between the two categories of respondents regarding maintenance and repairs of homes.

**Table 4.6 Influence of Social Intermediation Services on Household Welfare (housing and housing improvements)**

Influence on HH Level Welfare		CwE		VSLA		$\chi^2_{Cal}$	P-Value	DF
		Freq.	Per cent	Freq.	Per cent			
Housing	Owned	75	76.5	72	75.0	0.062	0.804	
	Rented	23	23.5	24	25.0			
Home Repairs and Maintenance	No	49	55.1	40	44.9	1.820	0.177	
	Yes	40	44.9	49	55.1			

Source: From Field Data (May, 2012)

\* $P < 0.05$  Significant

#### 4.6.2 Comparative Analysis of Household Welfare Outcomes (Number of Children in School)

The study further assessed the number of school aged children of respondents who are actually in school. Table 4.7 indicates that, out of a total of 99 respondents of the CwE, 16 (16.2%) have no children in school. Also, from a total of 93 VSLA respondents, seven (7.5%) also had no child in school. Twelve (12.1%) and 18(19.4%) of the CwE and VSLA clients respectively had only 1 child in school. Thirty five (35.4%) and 25(26.9%) of the CwE and the VSLA respectively also had only two children in school. Furthermore, whilst no one had 7 or more children in school from the CwE category, only one within the VSLA had exactly 7 children in school.

Additionally, the chi square test of statistical significance with a value of 10.143 and a p-value of 0.181 showed no difference between that of the CwE and the VSLA regarding number of children in school.

**Table 4.7 Number of Children in School of Respondents**

Influence on HH Welfare Level	No. of Children in School	CwE		VSLA		$\chi^2_{\text{Cal}}$	P-value	D F
		Freq.	Per cent	Freq.	Per cent			
Education of Children	0.00	16	16.2	7	7.5	10.143	0.181	1
	1.00	12	12.1	18	19.4			
	2.00	35	35.4	25	26.9			
	3.00	23	23.2	24	25.8			
	4.00	8	8.1	12	12.9			
	5.00	5	5.1	4	4.3			
	6.00	0	0	2	2.2			
	7.00	0	0	1	1.1			

Source: Field Data (2012)

\* $P < 0.05$  Significant

This means that clients of both the CwE and the VSLA are at the same level in terms of the education of their children.

#### 4.6.3 Comparative Analysis of Highest Levels of Education attained by Children of Respondents

The study further examined the highest possible levels of education attained by children of clients of both groups in order to determine differences of this key outcome indicator.

The results are presented in the table 4.8 and the chi-square test showed statistically insignificant differences between children of respondents of the CwE and the VSLA regarding educational levels attained. The findings conform to Save the Children study on different microfinance programs in Honduras that clients indicated that participating in the credit and savings programme increased their earnings and the availability of resources. This allowed them to send many of their children to school and reduced student drop-out rates (Marcus, et al. 1999).

**Table 4.8 Levels of Education of clients**

Influence on HH Level Welfare	Level of Education	CwE		VSLA		$\chi^2_{cal}$	P-value	DF
		Freq.	Per cent	Freq.	Per cent			
Education of Children	Primary	21	23.6	31	34.1	4.452	0.348	1
	JHS	37	41.6	40	44.0			
	SHS	24	27.0	16	17.6			
	Post sec.	2	2.2	1	1.1			
	Tertiary	5	5.6	3	3.3			

Source: Field Data (May, 2012)

\* $P < 0.05$  Significant

#### 4.6.4 Comparative Analysis of Access to Healthcare Services (Having NHIS as Proxy).

In determining client's ability to access health care for themselves and their children using their membership of the National Health Insurance Scheme (NHIS) as proxy, the results showed that out of 98 respondents of the CwE, a relatively high number 63(61.8%) were not members of the NHIS. Only 35 respondents (34.3%) had

registered with the NHIS with the implication that the majority of respondents of the CwE and their households' access to healthcare are therefore based on the cash-and-carry system i.e. the upfront payment for healthcare services. From FGDs, it was also discovered that most resort to herbal preparations and faith-based healings.

Among the VSLA groups on the other hand, out of 100 respondents, 64% were not members of the NHIS, with only 36% been registered members. The chi square test proofed no significant differences between respondents of the VSLA and that of the CwE in their accessibility to healthcare when membership of the NHIS was used as proxy. However, most here too admitted to resorting to herbal preparations and faith-based healings from spiritual gardens as health seeking behaviors.

**Table 4.9 Ability to Access Health Care**

Influence on HH Level Welfare-Health		CwE		VSLA		$\chi^2$ Cal	P-Value	DF
		Freq.	Per cent	Freq.	Per cent			
Joined NHIS	No	63	61.8	64	64.0	0.002	0.967	1
	Yes	35	34.3	36	36.0			

Source: Field Data (May, 2012)

\* $P < 0.05$  Significant

From the FGDs, clients of both programmes identified low knowledge of the usefulness of the NHIS as key reason for low patronage. The second reason was that most clients patronize self-medication especially with the herbal preparations prevalent in the Ghanaian healthcare delivery system which are not prescribed at the health facilities. Thirdly, that most prefer quality services and medications which often is not the case with services rendered through the NHIS but are available in the private health facilities that most often do not accept the NHIS card holders and fourthly clients admitted to resorting to faith based healing at spiritual gardens. This

contrast sharply with the findings of Metcalfe and Sinclair (2008) that “MFIs have a vested interest in protecting their clients from health-related financial shocks, so they can increase assets and become more informed and stable consumers of microfinance services” and that routine, minor expenses accumulate over time, adding up to a serious cost burden, while serious illnesses can devastate a family slowly working its way out of poverty (*Ibid*).

#### **4.6.5 Comparative Analysis of Household Level Welfare Outcomes (Household Dieting Characteristics)**

On how households of respondents fared during the past 12 months with regards to their dieting characteristics as having gone worse, stayed same or improved, table 4.10 also indicates that, whilst 29 respondents (37.7%) out of 77 of the CwE reported an improved household diet pattern, only three (7.89%) of 38 VSLA respondents agreed their household diet has improved. Forty-one respondents (61.04%) of the CwE clients however maintained their household diet characteristics had remained same, whilst thirty-three respondents (86.84%) of the VSLA also said same. A limited number, one (1.30%) CwE and two (5.26%) of the VSLA rather said their household diet had worsened. Cross tabulating, there exists statistically significant difference between clients of the two models with a chi square value of 12.070 and a corresponding p-value of 0.002 for the range  $0.00 \leq P \leq 0.05$ .

This means clients of the CwE were relatively better off than their VSLA counterparts and is consistent with the findings of Grasmuck and Espinal (2000) that “when women are given greater autonomy over their lives and the lives of their children, living conditions invariably improve.

This is mostly due to the fact that women are most apt to use household income to better the nutrition and education;al opportunities of their children”. Also, it is

consistent with studies by Remenyi and Quinones (2000) that, “household income of families with access to credit was significantly higher than for comparable households without access to credit”. It also confirms Mustafa et al. (1996) study in Bangladesh that members have better coping capacities in lean seasons and that these increased with length of membership and amount of credit received.

**Table 4.10 Characteristics of Household Diet**

Influence on HH Level-diet	Household Level diet Characteristics	CwE		VSLA		$\chi^2$ Cal	P-Value	DF
		Freq.	Per cent	Freq.	Per cent			
Household diet	Worsened	1	1.30	2	5.26	12.070	0.002	1
	Stayed same	47	61.04	33	86.84			
	Improved	29	37.66	3	7.89			

Source: From Field Data (2012)

\* $P < 0.05$  Significant

#### 4.6.6 Comparative Analysis of Household Level Welfare Outcomes (having to eat less food due to less cash inflows)

On coping strategies of households of clients during periods of less cash inflows particularly less calorie intake, fifty-nine (64.1%) out of 92 respondents of the CwE reported not having to eat less food during periods of less cash inflows. Only thirty-two (36%) out of 89 respondents of the VSLA also reported not having to eat less food during periods of less cash inflows. The reverse is true for respondents in each category. Whilst only thirty-three (35.9%) of the CwE respondents agreed they did ate less food due to less cash inflows at one time or the other, a greater percentage( 64%) of the VSLA also said they ate less during such periods.

Cross tabulating, the chi square value of 14.365 and a p-value of 0.000 indicated that statistically, a significant difference exists between clients of the CwE and the VSLA.

This means that more members of the VSLA groups experience more stress during periods of less active business activity and hence less cash inflows.

**Table 4.11 Household Welfare Outcomes (Eating Less Due to Less Cash Inflows)**

Influence on HH Level Welfare		CwE		VSLA		$\chi^2$ Cal	P-Value	DF
Eat less food		Freq.	Per cent	Freq.	Per cent			
No		59	64.1	32	36.0	14.365	0.000	1
Yes		33	35.9	57	64.0			
Total		92	100.0	89	100.0			

Source: From Field Data (2012)

\* $P < 0.05$  Significant

The finding confirms the fact that the VSLA as a “savings-led” model is recommended for rollout to poorer clients, characterized by smaller loan sizes and in markets with low turnovers. There is therefore the need to link groups of VSLAs to formal financial institutions depending on group’s performance so as to enable them access larger and varied financial products.

#### **4.6.7 Comparative Analysis of Household Level Welfare Outcome ( Cash to Conduct Livelihood Strategies)**

Table 4.12 presents the frequencies and percentages for each category regarding respondent’s experiences with shortage cash to carry out their livelihood strategies and activities. From a total of 92 respondents of the CwE, sixty-one (66.3%) said they hardly faced challenges with the availability of cash to carry out their livelihood strategies and activities whilst only 33.7% admitted to having faced the challenge of lack of cash to conduct their livelihood strategies and activities.

Regarding respondents of the VSLA on the other hand, forty-seven (50.5%) out of 93 said they have had no challenge of shortage of capital to conduct their livelihood strategies and activities.

Forty six (49.5%) however, agreed to having faced the challenge of shortage of funds to conduct their livelihood strategies and activities. The chi square value of 4.732 and a corresponding 0.030 indicates statistically, that significant differences exist between clients of the VSLA and the CwE. This therefore meant that the CwE clients have access to larger loan facilities that meets the demands of their livelihood strategies and activities, repayment capacities and that most engaged in businesses with high turnovers than those of the VSLA.

**Table 4.12 Livelihoods Strategies Level Welfare Outcomes (Physical Cash to Conduct Livelihood Strategies)**

Livelihood Strategy Level Welfare		CwE		VSLA		$\chi^2$ Cal	P-Value	DF
No money to conduct business	No money	Freq.	Per cent	Freq.	Per cent			
	No	61	66.3	47	50.5	4.732	0.030	1
	Yes	31	33.7	46	49.5			
	Total	92	100.0	93	100.0			

Source: Field Data (2012)

\* $P < 0.05$  Significant

#### 4.6.8 Livelihood Strategies Level Welfare Outcomes (Ability to repay loans)

Comparing clients' ability to repay their loans with or without difficulty from proceeds of their livelihood strategies and activities, the results presented in table 4.13 indicates that out of a total of 92 respondents, 51 (55.4%) said they couldn't remember having difficulties repaying their loans at least within the last 12 months.

**Table 4.13 Enterprise Level Welfare (Repaying Loans)**

Influence Enterprise Level Welfare		CwE		VSLA		$\chi^2$ Cal	P-Value	DF
Face difficulty repaying Loan	Difficulty repaying	Freq.	Per cent	Freq.	Per cent			
	No	51	55.4	54	58.1	0.130	0.718	1
	Yes	41	44.6	39	41.9			
	Total	92	100.0	93	100.0			

Source: Field Data (2012)

\* $P < 0.05$  Significant

Forty-one (44.6%) on the other hand admitted to having faced some difficulties paying back their loans from proceeds generated from their livelihood strategies.

For the VSLA respondents, whilst 54(58.1%) out of 93 said they faced no difficulties paying back loans from their groups, thirty-nine (41.9%) admitted some difficulties making loan repayments at least within the last 12 months. This means that though credit size do vary within and between respondents in both categories,, it correspond to enterprise size and clients repayment capacities.

A cross tabulation of the results gave a chi-square value of 0.130 and a p-value of 0.718 pointing to the fact that statistically, no significant difference exist between the two groups.

On causes of repayment problems, reasons given by clients of both groups are presented in the table 4.14. The common causes of repayment problems identified by clients from both groups included unprofitable enterprise, ill-health of self or dependants and hence could not conduct business as usual, loan fund use for consumption purposes and bad debt from credit sales. From the table, 8 (17.8%) out of 45 CwE respondents and ten (22.2%) out of 45 VSLA respondents said their problems of repayments were due to unprofitable enterprise venture. While 5 respondents of the CwE representing 11.1% pointed to ill-health, only 2 (4.4%) respondents of the VSLA agreed to this assertion. Credit used for consumption purposes constituted the major problem for client's difficulties in repaying loans, with over 48% of the CwE respondents and 66.7% of the VSLA agreeing. However, 20 respondents (20%) of the CwE and only three (6.7%) of the VSLA attributed their repayment problems to bad debt resulting from credit sales. This means the major cause of repayment problems in both groups is the use of productive credit for

consumption purposes. This is followed by bad debts from credit sales. Investment in unprofitable enterprises came third and ill-health of client or dependant(s) taking the fourth position. This conform to Coleman (1999, 2001) analyzes of a microfinance programme in Northeast Thailand where he attributed the insignificant or negative impact of microfinance to the small size of the loans. Being too small for investment, the loans were used for consumption and households turned to moneylenders to finance the repayments, leading to a vicious circle of poverty.

Cross tabulating, the chi square value of 6.739 with a corresponding p-value of 0.150 shows that there is no significant difference between respondents of the CwE and the VSLA regarding challenges faced in loan repayments. This implies that problems of repayments are similar across programmes and their perceived severity is also similar. The findings also conform to the findings of Metcalfe and Sinclair (2008) that MFIs have a vested interest in protecting their clients from health-related financial shocks, so they can increase assets and become more informed and stable consumers of microfinance services. Routine, minor expenses accumulate over time, adding up to a serious cost burden, while serious illnesses can devastate a family slowly working its way out of poverty (Ibid).

**Table 4.14 Causes of Repayment Problems**

Influence on HH Level Welfare		CwE		VSLA		$\chi^2$ Cal	P-Value
Cause of repayment problem	Cause of repayment problems	Freq.	Per cent	Freq.	Per cent		
	Unprofitable	8	17.8	10	22.2	6.739	0.150
	Ill-health	5	11.1	2	4.4		
	Consumption	22	48.9	30	66.7		
	Bad Debt	9	20.0	3	6.7		
	Others	1	2.2	0	0		
	<b>Total</b>	45	100.0	45	100.0		

Source: Field Data (2012)

\* $P < 0.05$  Significant

## 4.7 IMPACTS OF FINANCIAL INTERMEDIATION ON CLIENTS

From figure 2.1, the livelihood outcomes that emanate from the livelihood strategies translate into impacts on clients' livelihoods. Objective four of this study sought to assess clients' perception of the impact of the financial services on their livelihoods. Focus group discussions with selected respondents of the CwE and the VSLA were used in determining the overall perception of benefits of loans and savings to client's livelihoods. The impact indicators were further ranked in order of importance as perceived by respondents. The section then went on to determine factors motivating clients to stay in programmes and what they wished changed. These perceptions were also further ranked to reflect inner realities of respondents.

### 4.7.1 Impacts of Financial Services (Loans) on Clients Livelihoods Strategies and Outcomes

Results of focus group discussions (FGDs) on clients' perception of overall effects and hence impact of programme on their livelihoods conducted with 33 respondents drawn from ten different groups each of the CwE and the VSLA is presented in table 4.15 and table 4.16 respectively.

**Table 4.15 Pair-wise ranked results of impacts of loans on CwE client's livelihoods**

	ISL	EB	IH	FI	PCF	EIGA	Total	Rank
ISL	X						5	1 <sup>st</sup>
EB	ISL	X					1	5 <sup>th</sup>
IH	ISL	IH	X				2	4 <sup>th</sup>
FI	ISL	FI	FI	X			4	2 <sup>nd</sup>
PCF	ISL	PCF	PCF	FI	X		3	3 <sup>rd</sup>
EIGA	ISL	EB	IH	FI	PCF	X	0	6 <sup>th</sup>

Sources: FGD with CwE Group (June, 2012)

Legend: \*ISL=Improve Standard of Living                      \*EB=Expand Business  
 \*FI=Financial Independence                                      \*PCF=Pay Children Fees  
 \*EIGA=Engage in Income Activity                      \*IH=Improved Housing

From table 4.15, the CwE respondents perceived improvement in their standard of living as the most important impact of loans as a result of their membership of the programme. Financial independence which implied an empowered life followed a distant second.

The ability to educate children by providing school fees and supplies such as uniforms, books etc was perceived as the third most important. Improvement in housing, able to expand livelihood strategies and activities and the capability to engage in income generating activities followed in that order.

Table 4.16 also presents the results of the FGD with the VSLA group. Here too, the perception of improved standard of living was ranked as the most important impact of loans from their membership of programme. Able to educate children by paying their fees and providing school supplies ranked second. Expanded livelihood strategies and activities (business enterprise) and improved housing were ranked third and fourth respectively.

**Table 4.16 Pair-wise ranked results of impacts of loans on VSLA clients Livelihoods**

	ISL	EB	IH	PCF	Total	Rank
ISL	X				3	1 <sup>st</sup>
EB	ISL	X			1	3 <sup>rd</sup>
IH	ISL	EB	X		0	4 <sup>th</sup>
PCF	ISL	PCF	PCF	X	2	2 <sup>nd</sup>

Sources: FGD with VSLA Group (June, 2012)

Legend: \*ISL=Improved Standard of Living      \*EB=Expand Business  
 \*PCF=Pay Children's Fees      \*IH=Improved Housing

The above results clearly confirm the fact that improving client's access to financial services particularly credit is an important step towards poverty reduction (Littlefield, Murdoch and Hashemi, 2003) and that in Honduras participating in credit and savings programmes increased client's earnings and the availability of resources. This allowed them to send many of their children to school and reduced student drop-out rates

(Marcus, et al. 1999). Furthermore, Zeller and Sharma (1998), in their assessment of the impact of micro credit on household income found out that access to credit or participation in a credit programme positively affected household income in four out of five countries assessed. Households with improved access to credit were also better able to adopt technologies, spent more on food and in some cases, had higher calorie intakes.

#### 4.7.2 Impacts of Financial Services (Savings) on Clients Livelihoods Strategies and Outcomes

On respondents' perceptions of impacts of savings on their livelihoods, table 4.17 and 4.18 presents the reasons and rankings for the CwE and the VSLA respectively. Table 4.17 indicates that the majority of the CwE respondents agreed that most savings were ploughed-back in their enterprises. Savings as a requirement to accessing loans however, was ranked second.

Additionally, the prospects for the use of loans to mitigate emergencies both at the enterprise level and family welfare together with savings for purposes of servicing loans ranked at par at a distant third. The ranked results stress the importance of savings in microfinance programmes the world over.

**Table 4.17 Pair-wise ranked results of impact of Savings on CwE clients' livelihoods**

	SPB	EFS	SF	SL	SSL	Total	Rank
SPB	X					4	1 <sup>st</sup>
EFS	SPB	X				0	3 <sup>rd</sup>
SF	SPB	SF	X			3	2 <sup>nd</sup>
SL	SPB	SF	SF	X		0	3 <sup>rd</sup>
SSL	SPB	SSL	SSL	SSL	X	3	2 <sup>nd</sup>

Sources: FGD with CwE Group (June, 2012)

Legend: \*SPB=Savings Plough-back in Business      \*EFS=Emergency Fund Source  
           \*Sf=School Fees                                \*SL=Service Loan                                \*SSL= Saving to Secure Loan

Additionally, table 4.18 also presents pair wise ranked results of perceived reasons for CwE clients liking of the programme in general.

**Table 4.18 Pair-wise ranked results of perceived CwE respondents like about Programme**

	EAC	CLE	S	GS	IFR	GCC	MRM	TOTAL	RANK
EAC	X							6	1 <sup>st</sup>
CLE	EAC	X						5	2 <sup>nd</sup>
S	EAC	CLE	X					3	4 <sup>th</sup>
GS	EAC	CLE	GS	X				4	3 <sup>rd</sup>
IFR	EAC	CLE	S	GS	X			2	5 <sup>th</sup>
GCC	EAC	CLE	S	GS	IFR	X		1	6 <sup>th</sup>
MRM	EAC	CLE	S	GS	IFR	GCC	X	0	7 <sup>th</sup>

Sources: FGD with CwE Group (June, 2012)

Legend: \*EAC=Easy Access to Loan      \*CLE=Credit Large Enough  
 \*S=Savings \*GS=Group Support      \*IFR= Incentive for repayment  
 \*GCC=Good Customer Relation      \*MRM=Members Regular Meetings

CwE respondents perceived the reality of easy access to credit since joining programme as the most important reason for liking the programme. That the credit facility was large enough for both business and family needs came second. Group offering information and advice on the identification of business opportunities (livelihood strategies and activities) and support during social functions such as funerals, weddings and naming ceremonies was ranked a distant third for likeness of programme. Furthermore, having a convenient saving place i.e. the BARB, incentives offered to induce repayments by the MFI (BARB) such as the distribution of cloths, ice chest etc, good customer relations by the Credit Officers and regular meetings were ranked fourth, fifth, sixth and seventh in that order.

On perceived impacts from the FGD with the VSLA respondents, the ranked reasons are presented in table 4.19. Respondents' perception of the prime motivation for saving with groups is to obtain loans in order to expand their livelihood strategies (business enterprises). Both savings for emergencies at enterprise and family level

and payment of school fees ranked second regarding clients perception of impact. Savings in order to service loans was the least ranked in importance. This means saving as a requirement for obtaining loans was the key motivation for membership of programmes in the case of the VSLA respondents.

**Table 4.19 Pair-wise ranked results of perceived impacts of Savings on VSLA clients' livelihoods**

	EBE	EFS	SF	SL	Total	Rank
EBE	X				3	1 <sup>st</sup>
EFS	SPB	X			1	2 <sup>nd</sup>
SF	SPB	SF	X		1	2 <sup>nd</sup>
SL	SPB	EFS	SF	X	0	3 <sup>rd</sup>

Sources: FGD with VSLA Group (June, 2012)

Legend: \*EBE=Expand Business Enterprise \*EFS=Emergency Fund  
\*SF=School Fees \*SL=Service Loan

The FGD with the selected VSLA members also revealed the presented pair wise ranked reasons in table 4.20. It indicates that the opportunity to obtain loans and eventually a lump sum of savings plus interests during share-out was ranked as the first and foremost motivating reasons. The opportunity to save conveniently was also ranked number two (2).

**Table 4.20 Pair-wise ranked results of reasons for VSLA respondents liking programme**

	BL	S	U&F	LIL	NFE	CRS	Total	Rank
BL	X						5	1 <sup>st</sup>
S	BL	X					3	2 <sup>nd</sup>
U&F	BL	U&F	X				4	3 <sup>rd</sup>
LIL	BL	S	U&F	X			1	4 <sup>th</sup>
NFE	BL	S	U&F	NFE	X		2	5 <sup>th</sup>
CRS	BL	S	U&F	LIL	NFE	X	0	6 <sup>th</sup>

Sources: FGD with VSLA Group (June, 2012)

Legend: \*BL=Because of Loan \*S=Savings \*U&F= Unity/Fraternity  
\*LIL= Low Interest Rate \*NFE=Non-Financial Education  
\*CSG=Convenient Repayment Schedule

Group members seeing each other as a united solidarity group and the fraternity enjoyed thereof came third while the low interest rates on loans, the non-formal

educational components generally and the flexible repayment schedules followed in fourth, fifth and sixth positions respectively.

The fact that the low interest rate on loans was not ranked among the first three reasons for liking programme confirms the findings of Steel and Charitonenko (2003), that reliable access to credit when needed is more important to smallholders and the poor than the interest rate and that savings mobilization is an effective tool for expanding outreach and achieving financial self-sustainability. The above results in both groups also fall in line with the Sustainable Livelihoods Guidance Sheets core concepts of development been people-centered, holistic, dynamic, building on strengths, emphasizing micro-macro links, sustainable, empowering, responsive and participatory, multi-level, conducted in partnership, disaggregated, long-term and flexible (Cleary, 2003).

It is however, worth noting here that when asked what motivated clients to join groups and still remained members, the reasons given were similar to those given for liking the programme. The social exchange theory which assumes that people always behave rationally to maximize gain and emphasizes the fact that people behave according to anticipated rewards, and where faced with competing choices, they will choose the option which carries higher rewards is also demonstrated here.

Furthermore, the results for the CwE and the VSLA respondents regarding impacts of loans on livelihood strategies, conform to Zeller and Sharma (1998) assessment of microfinance programmes in five countries that access to financial services improves the incomes of and opportunities for the rural poor, and provides support to tide families over difficult times. Poor households strive to repay loans so that they will be able to borrow another time. Also, saving to service debt from groups been the least

considered among the VSLA respondents conform to the fact that the approach is characterized by a focus on savings, asset building, and the provision of credit proportionate to the needs and repayment capacities of the borrowers and that generally, poor and low income households have effective demand for a range of microfinance services including a safe and convenient deposit services so they can save for emergencies, investments, consumption, social obligations and the education of their children.

#### 4.7.3 Clients Perceived Challenges with Programmes.

This section presents factors respondents perceived as challenges they faced been members of programmes and how these negatively impacts on their livelihood strategies and the outcomes thereof and wished changed.

**Table 4.21 Pair-wise ranked results of CwE Respondents perceived challenges with Programme**

	DPL/HI	GG	GAM	FNP	LTM	NRP	DRTS	Total	Rank
DPL/HI	X							3	4 <sup>th</sup>
GG	DPL/HI	X						2	5 <sup>th</sup>
GAM	DPL/HI	GG	X					0	6 <sup>th</sup>
FNP	FNP	FNP	FNP	X				6	1 <sup>st</sup>
LTM	LTM	LTM	LTM	FNP	X			5	2 <sup>nd</sup>
NRP	DPL/HI	GG	G	FNP	LTM	X		0	6 <sup>th</sup>
DRTS	DRTS	DRT S	DRTS	FNP	LTM	DRT S	X	4	3 <sup>rd</sup>

Source: From FGD with CwE Group

Legend: \*DPL/HI=Difficulty Repayment/High Interest

\*GG=Group Guarantee \*GAM=Gossip among Members

\*FNP=Find No Problems \*LTM=Lateness to Meetings

\*NRP =Non Repayment \*DRTS=Duration of Repayment too Short

Table 4.21 above, presents the pair wise ranked results of perceived challenges of the CwE programme participants. From the table, it can be observed that while the majority found no obvious challenges with the programme to relate with, lateness to meetings was ranked the first and foremost challenge. Loan repayment duration perceived as too short came a distant second, while difficulty in repayment of loans

due to high interest rate ranked third. Also, the challenges associated with group members guaranteeing each other's loans were fourth. Also, the perception of gossiping among members and non-repayments of contracted loans were the least reasons cited as challenges by respondents. It suggests their triviality as issues that threaten group cohesion and solidarity.

Challenges also identified by the VSLA respondents as militating against impact of programme on their livelihood strategies and the outcomes thereof are presented in table 4.22. These included disagreements during meetings, absenteeism and lateness to meetings which all ranked at par as critical challenges to groups sustainability. Most respondents, however, said they found no challenges they can associate as participants of the programme and this came a distant second. Non-repayments or delayed repayments of loans by elite influential members ranked third and having difficulty repaying loans was the least factor mentioned as a challenge.

**Table 4.22 Pair-wise ranked results VSLA clients perceived challenges with programme**

	DPL	DDM	SSL	A	LTM	NRP	FNP	TOTAL	RANKED
DPL	X							2	3 <sup>RD</sup>
DDM	DDM	X						5	1 <sup>ST</sup>
SSL	DPL	DDM	X					0	5 <sup>TH</sup>
A	A	A	A	X				5	1 <sup>ST</sup>
LTM	LTM	DDM	LTM	LTM	X			5	1 <sup>ST</sup>
NRP	DPL	DDM	NRP	A	LTM	X		1	4 <sup>TH</sup>
FNP	FNP	DDM	FNP	A	LTM	FNP	X	3	2 <sup>ND</sup>

*Source: FGD with VSLA Group, June 2012*

Legend:            \*DPL=Difficult Paying Loans    \*DDM=Disagreements during Meetings  
                       \*SSL=Small Sized Loans        \*A=Absenteeism  
                       \*LTM=Lateness to Meetings    \*NRP=Non-repayments  
                       \*FNP=Find No Problems

The next chapter presents the summary of the research, the conclusions and policy recommendations.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

In this chapter, the summary and conclusions of the results are presented in sections 5.1 and 5.2 respectively while some policy recommendations are presented in section 5.3. Though poverty is said to be decreasing at an increasing rate in Africa, the livelihoods of the rural poor especially women are constrained by limited access to financial services as well as non-financial services including business development skills and entrepreneurial capacities. There is however, growing evidence that microfinance which involves credit, savings, payment services, money transfers and insurance to poor and low income households and their microenterprises using innovative methodologies such as the CwE and the VSLA is a more sustainable strategy for addressing poverty and hence development.

#### 5.1 Summary

Theoretical debates on appropriate financial institutional arrangements in order to address rural poverty through microfinance centers around two main policy options. These are the formal-informal institutional linkage option and the mimicking of informal financial products by the formal financial intermediaries aiming at enhancing both outreach and sustainability by taking advantage of the inherent strengths of each. The definition of poverty on the basis of income per capita may be necessary but definitely not sufficient in addressing the diverse and complex interpretation of poverty. Thus, the Human Poverty Index that incorporates such factors as illiteracy, malnutrition, health, access to water supply and sanitation, economic vulnerability and political freedom provides a broader definition of the concept of poverty that the CwE and the VSLA models are designed to address. Though a number of studies

indicate the positive impact of “savings-led” microfinance models such as the Credit with Education (CwE), Village Savings and Loans Associations (VSLA) and other Self Help Groups (SHGs) on clients, most places emphasis on financial performance at the levels of the institutions delivering the service. While these studies are required to inform policy at both institutional and governmental levels, this study seeks to specifically assess in a comparative manner how the CwE and the VSLA programmes influences the livelihood strategies of clients, the resulting outcomes of the social intermediation services and the impacts of the financial intermediations on respondents livelihoods.

The study employed the survey research in which triangulation was embedded to achieve a ‘mixed method approach’ which allowed for both qualitative and quantitative methods to be used in the survey. The study population involved clients of the CwE and the VSLA in the Awutu district. The sample size involved approximately 100 clients from each category of respondents. Apart from the secondary data, primary data were collected from in-depth interviews and focus group discussions.

Descriptive statistics such as frequency tables, percentages, bar charts, pie charts were used in the analyses. The Chi Square ( $\chi^2$ ) tests were mostly used in determining statistically significant differences between common variables studied across the two models. The results showed that both the CwE and VSLA microfinance service delivery models with their management systems, operational procedures, terms and conditions have greatly enhanced respondents access to financial services and the non-financial component enabled the acquisition of useful knowledge and skills. The clients have been mainly rural women in their reproductive and economically active

ages of between 35-54 years, living in households with an average of two children per household for the CwE and 2.5 for the VSLA respondents. About 44 per cent of the CwE and 40 per cent of the VSLA respondents were female household heads themselves. However, 64.4 per cent for the CwE and 62.4 per cent for the VSLA respondents were respectively married. Most respondents had education between primary and middle/Junior High School with 63.7 per cent of the CwE respondents and 57.4 per cent of the VSLA respondent having had education up to this level. On the number of years clients have stayed with the programme, 96 % of the VSLA clients were either 4years or below, whilst 56 per cent of the CwE respondents had stayed with the programme for more than 8years. Clients of both models, mostly women, were hitherto excluded from having access to basic financial services especially from formal financial institutions. In addition to the financial services, a majority of clients of both groups admitted to having participated in all the non-financial educational sessions and that the knowledge and skills acquired were useful in their livelihood strategies and activities. All except the gender education sessions showed statistically significant differences between the two categories of respondents as search for livelihoods. According to the female respondents it made them assertive and enabled their participation in household decisions-making processes.

The study then comparatively examined the collective influence of the social intermediation services on the livelihood strategies of the clients. Common livelihood strategies identified by respondents were crop farming, livestock' rearing, agro-processing, fish mongering, agro-forestry, waged labor, migration to work, services provisioning, commerce /petty trading and cottage industry. In all, the study revealed that statistically significant differences exists between clients of the CwE and the

VSLA for agro-forestry, waged labor and cottage industry regarding their perception of the usefulness of the social intermediation services as search for livelihood. The rest of the variables, however, did not show any significant differences statistically between the two groups of respondents.

Furthermore, the study comparatively assessed the collective influence of the social intermediation services on livelihood outcomes at respondent's enterprise level, enterprise skills utilization and personal savings habits. The rest were household welfare such as housing and housing improvements, education of children, accessing healthcare using membership of the National Health Insurance scheme as proxy and characteristics of household diets of respondents. The rest were challenges respondents encountered at the enterprise level such as shortage of capital to conduct livelihood strategies, ability to service loans and loan default and its causes within the last 12 months.

The study found that significant differences exist between respondents of the two models at the enterprise level outcomes such as been able to expand enterprise size and added new enterprises (an indication of income improvements), improved quality of products, reduced cost by buying in larger volumes, access to cheaper credit sources, sold in new markets, and investment in new structures.

At the personal level savings, statistically significant differences exist between the two groups regarding their preferred places of savings and the amounts saved. Also, enterprise skills outcomes such as keeping enterprise capital separately from money for household and personal use, calculation of profits from records of costs and revenues, having fixed location for protection from the vagaries of the weather and for production, allowing credit sales and having action plans to bring about enterprise

growth within the last 12 month also showed statistically significant differences between the two categories of respondents.

With regards to household level welfare outcomes such as housing, the study showed no significant differences for clients of the CwE and VSLA as to their either living in own homes or in rented apartments and whether clients carried out improvements on their living quarters. As part of household welfare outcomes, schooling of children and accessing healthcare using belonging to the National Health Insurance Scheme (NHIS) as proxy did not also show any significant difference between the two groups. However significant differences existed in the characteristics of household diet. On the availability of adequate credit facilities to carryout livelihood strategies, significant differences existed between clients of the CwE and VSLA.

By having access to microcredit, clients of the CwE perceived improvement in their standard of living as the most important impact. Financial independence was ranked second. Education of children, improvement of housing, expansion of business and offered employment in the form of income generation activity followed in that order.

For the VSLA, improved standard of living was also ranked number one regarding how the programme have positively impacted their livelihoods. Able to pay children's school fees was ranked second while ability to expand livelihood strategies and improved housing followed third and fourth respectively.

On the impact of savings on clients livelihoods, the majority of the CwE clients agreed that most savings were plough-back in their enterprises and secondly, that they save as a requirement to secure credit from the MFI. For the VSLA respondents on the other hand, the prime motivation to save with group was also to secure credit

facilities to engage in income generating activities and during emergencies both at the enterprise and family level.

Furthermore, on factors respondents perceived as reasons for liking programmes, the study revealed that easy access to credit was the factor considered most important for respondents liking programme in the CwE model. Others were loan size large enough, the general support from group members, convenient savings facility and the incentives offered to induce repayments, the perceived good customer relations with Credit Officers and regular meetings were ranked in that order. For the VSLA respondents on the other hand, the opportunity to obtain loans and eventually a lump sum of savings plus interests during share-out was ranked the most important reason respondents cherished as members of programme. The rest were offering convenient saving facilities, support from the solidarity group, the low interest rates on loans, the educational sessions and the flexible repayment schedules were also ranked in that order.

Additionally, an assessment of factors respondents perceived as challenges to the impact of programme on their livelihoods and wished changed, while the majority of the CwE clients agreed they did not find any challenges with the programme, lateness to meetings was ranked first. The perception that the loan repayment schedule was too short, interest rate been high, the concept of joint liability, gossiping and non-repayments were other challenges identified and ranked in that order by the CwE respondents. For the VSLA the other hand, disagreements during meetings, absenteeism and lateness to meetings were the most problematic and ranked in that order. Defaulting in loan repayments by “elite” members followed, though most said they did not find anything wrong with programme.

In general, the study found that poor and low income households have effective demand for a range of microfinance services including a safe and convenient deposit services so they can save for emergencies, investments, consumption, social obligations and the education of their children. They also need credit services for consumption smoothing and to finance livelihood activities and large expenses such as education, housing improvements and migration among others.

## **5.2 Conclusion**

As development strategies, the CwE and the VSL approaches to microfinance services delivery are being used to reduce poverty on a wide and sustainable scale in the study area in the context of an external funding source that covers the cost of the capacity-building inputs and activities, a technically competent management, a supportive macroeconomic environment and appropriate microfinance policy framework. The study found that when these models are replicated, it is possible to make swift strides towards poverty reduction and rural financial systems development in developing country as Ghana.

Both approaches to microfinance services delivery in the study area have impacted positively on the livelihood strategies and outcomes of programme participants. Where services are of a shorter duration, there were no significant differences on the practice of key livelihood strategies such as crop farming, animal rearing, agro-processing, migrant labour, waged labour, services provisioning and commerce/petty trading. However, longer term access to financial services led to differences in such general enterprise outcome indicators as expansion of enterprise sizes, improvement in income levels, and reduction in cost through bulk purchases. The rest were access to cheaper credit and investment in structures for marketing. The two approaches also

differed with regards to specific enterprise skills outcomes such as separating personal funds from those of business and having fixed location for production and protection from the vagaries of the weather.

Also, both programmes have had overall positive impact on the livelihoods of participants. These were evident during FGDs where they cited general improvements in their standard of living, enjoyment of financial independence, able to pay their children's school fees, expand their business enterprises and improvement in their housing conditions as a result of having easy access to credit, convenient savings facilities, and supportive groups.

Clearly, the CwE microfinance service delivery model ensures that, the revenue from the financial services component more than covers the cost of providing both the financial and non-financial services. Thus the financial service operations, cross-subsidizes the additional cost of the non- financial services. Considering that, the poor need more than financial services to lift themselves out of poverty such as education and skills, enterprise development, health and nutrition education, the CwE and the VSL models have the potential when provided on a sustainable basis to holistically address poverty and development.

### **5.3 Recommendations:**

1. According to Metcalfe and Sinclair (2008), many MFIs and for that matter CBFOs such as the VSLA and other SHGs have witnessed significant impact that all-too-common health shocks can have on their clients' ability to repay loans, save and flourish in their microenterprise endeavors. Based on this assertion therefore, apart from encouraging programme participants to join the National Health Insurance Scheme (NHIS), they should also endeavor to

design and test locally client-focused, health-related services that could be practically and sustainably offered in programmes. This was all the more reason why in 2006, Freedom from Hunger launched the Microfinance and Health Protection Initiative (MAHP), with funding from the Bill and Melinda Gates Foundation, which sought to expand clients access to crucial health-related products and services. These could be adapted locally and should be financially sustainable, scalable and replicable by both MFIs and SGs alike.

2. Also, the ability of CBFOs such as the VSLAs to maintain good governance structures at group levels effectively so that savings are secured and loans are repaid is paramount for their long-term sustainability. Donors and governments can add value by funding programs that train local people to develop viable groups and by providing technical assistance for the development of simple governance, operational, and accounting systems that can be implemented locally by poor people with limited or no education.
3. In addition, many CBFOs have failed following the infusion of donor or government funds into fragile young organizations lacking the skills to manage larger sums of money. An additional source of failure is external credit sources drawing into the membership of groups, people whose main objective is to obtain a slice of donor largesse rather than to contribute to the slow but steady buildup of groups. Nevertheless, partnerships and linkages between the VSLAs and mainstream formal financial institutions can be beneficial, especially if implemented incrementally the simplest form of partnership been that the VSLA groups bank their excess savings and earn interest on these savings with MFIs. As the relationship develops, the bank or

MFI can then assess the capacity of these groups to manage their own funds before extending credit to them.

4. Furthermore, donors, governments and non-governmental organizations should also fund programme evaluations, using performance criteria that allow comparison across programmes and models. The single most important performance indicator is repayment performance—that is, the ability of CBFOs to get borrowers to repay their loans in a timely way. Non-repayment of loans is the greatest threat to the financial sustainability of any financial organization, including the CwE and VSLAs. This threat is increased by the tendency of donors and governments to provide CBFOs with large loan funds that are beyond their capacity to manage effectively. Significant amounts of external funding (beyond small seed funds that help groups get started) should be linked to their performance in managing the group's own funds. This careful approach will enable the VSLAs to develop strong foundations that enhance their prospects for long-term sustainability. The CwE model, on other hand, requires that staff acquire diverse knowledge and skills to be effective. The staff may not have adequate level of expertise for effective financial and social intermediations. Moreover, the scope of the social intermediation services is limited to activities that can occur during a typical duration of weekly meeting. Therefore, refresher trainings should regularly be organized for staff from time to time especially on the social intermediation so as to enhance outreach and impact indicators.
5. It has also been clearly shown that it is possible to use the CwE and VSLA service delivery models to enhance both access(outreach) of microfinance

services by the poor especially women and ensure financial sustainability. Well trained Community Volunteers can be used to replicate the VSLA groups. There should be clear definition of roles and responsibilities for the implementing partners in both programmes. Clear-cut directives for requisitions, approvals and payment of service fees should be put in place so as to enhance effective collaboration between partners. However, in both case there is the need to solicit the service of technical service providers who have proven track records to help build the capacity of groups especially at the formative stages so as to widen the scope of choices of livelihood strategies and activities available to clients and hence outcomes and impact of programmes.

6. Regular evaluations of the CwE and VSLA programme activities preferably bi-annually will be necessary to ensure that, lapses and other weaknesses identified are addressed before they get out of hand. It is recommended here that the evaluations be outsourced to independent consultants/evaluators so as to eliminate subjectivity as much as possible.
7. Regular monitoring and reporting of activities to management, Boards and Technical Services Providers by Credit Coordinators is imperative. These reports should include outreach and operational performances. By extension VSLA groups and Community Volunteers should be monitored regularly and submitted reports discussed during meetings to ensure changes are effected in an on-going process. The technical service providers should in turn carry out field monitoring on a regular basis. These monitoring should be followed by de-briefing sessions with Credit Coordinators. This will enhance mutual

appreciation of issues and improvement of the quality of work among the partners.

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**APPENDIX****Sample Questionnaire****UNIVERSITY OF GHANA****Department of Agriculture Extension**

I am Aaron Adongo Alerigesane, an Mphil student of Agriculture Extension, University of Ghana, Legon Accra. As part of this degree, I am undertaking a research project leading to a thesis. The project I am undertaking is investigating how the Credit with Education (CwE) and the Village Savings and Loans (VSLA) microfinance models are practiced. The knowledge gained through this research will help to evaluate how client's livelihoods are affected by the two models and to identify ways of improving their practices.

If you have any questions concerning this undertaking, please do not hesitate to address them to me or my principal supervisor Dr. P.B. Atengdem, University of Ghana, College of Agriculture and Consumer Sciences, Dept of Agriculture Extension, P.O Box LG...Legon Accra:

Survey Identification Number: .....

Survey reviewed by:.....

Respondent Identification Number: .....

Community: .....

Name of interviewer:.....Date of interview:.....

**Respondent information only:** *(Complete from group records, when possible, or by asking client.)*

Name of group: .....

Group's current loan cycle: .....

Year joined program: .....

Total years in program: .....

No. of program loans Respondent has taken: .....

Is Respondent behind in repayments? *(Circle):* Yes= [1] No= [2]

Current savings amount with program: .....

Amount of 1st program loan: .....

Amount of current loan: .....

What business are you into at the moment.....

Do you have the National Health Insurance that covers you and all your children.....

**Biographical Data (circle and enter answer in box)**

1. How old are you?  
Specify number of years? ----- 99 = Don't know
2. Sex of respondent----- 1=male 2=female
3. Currently, are you ...?      1 = Married      2= Single/never married  
3=Separated/divorced      4= Widowed
4. Level of formal education      1 = No formal education      2 = primary- middle school or JHS completed      3 = Above middle/JHS
5. How long have you been a member of this group?      1= member below 4 years  
2= member of between 5years and 8years  
3=member of more than 8years
6. Have you ever engaged in any other economic activity at a different place before the current one?  
1=Yes      2= No

**Household Level Information (circle and enter answer in box)**

7. How many persons are in your household? (i.e. those who live with you and you share the same food at least once in a day  
  
Adults—18      years      of      age      or      older  
.....  
Children—17      years      of      age      or  
younger.....
8. How many persons in your household are working (engaged in work that earns income or products)?  
That is Number of economically active persons
9. Who is the head of your household (the person who is the principal decision-maker)?  
1= Self      2=Male relative (Husband, father, brother, uncle, grandfather, father-in-law, brother-in-law)  
3=Female relative (mother, sister, aunt, grandmother, mother-in-law)

**Education of Children (circle and enter answer in box)**

10. How many children in your household are school-aged between 5 and 17 years of age?  
  
Total      number      of      school-aged  
children.....

11. How many of these children currently attend school?  
 Total number in school.....

12. How many of these children have never attended school?

13. What is the highest grade level that any of your children has completed?  
 1=primary 2=JHS 3=SHS 4=post secondary 5=Tertiary

14. How does the amount your household spent on school and school expenses for this current school year compare to what you spent last school year. Did the amount... (*Read answers and enter response*).  
 1 =Decrease 2 =Stayed the same 3=Increase

**Group level information:**

15. Where did you first learn about the existence of groups like the one you are a member now?.....

16. What motivated you to join this group?  
 .....

17. How do you normally get information from the bank/group?  
 .....

18. How does belonging to the group influence your access to financial services such as?  
 18(a) savings.....  
 18(b) credit.....  
 18(c) micro insurance.....

**Client level Inputs/services:**

19. Have you participated in any training in the following subject areas?

Topic	1= yes 0= No	Was the content useful? Useful = 1 Not Useful = 1	DK= 99
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<b>Business Development</b> such as Acquiring a loan, importance of savings, budgeting, adding value, inventory management, risk management, insurance, investing to earn profit, selling strategies, market evaluation, management of enterprise, record keeping, calculating production cost, profit & loss,, customer relations, product placement, product pricing, diversification of product			
<b>Gender</b> such as reasons women are less equal to men, ways women can increase their participation in household decision-making, roles of women and men in the household, self-esteem			
<b>Reproductive Health</b> such as sexually transmitted infections, types of contraceptives, benefits of use of contraceptives			
<b>Diarrhoea management and prevention</b> in children such as causes of diarrhoea, symptoms of diarrhoea, mixing and storing ORS, rehydration, seeking medical attention for diarrhoea			
<b>Breastfeeding</b> such as importance of colostrums, importance of early introduction of child to breast milk, exclusive breastfeeding, benefits of breastfeeding to mother and family, managing breastfeeding problems such as sore nipples etc, positions and method of breastfeeding			
<b>Infant and child feeding</b> (nutrition) such as timing of supplementary feeding, suitable foods for infants, Frequency of feeding per day per age, Quality of food, utilization of locally available foodstuffs			
<b>HIV/AIDS Prevention and Care</b> such as causes of HIV/AIDS, how to avoid getting infected e.g. ABC method, treatment of infected persons e.g. non-stigmatization, how to take care for infected persons			
<b>Malaria Prevention and Treatment</b> such as causes, prevention, treatment, management/care			

<b>Family Planning</b> such as child-spacing, recommended number of children, contraceptive methods and practices, availability of service providers, pre-natal and ante-natal care, importance of attending ante-natal clinic, importance of adhering to advice given at ante-natal clinics, importance of delivering at the hospital, immunization of children to polio, yellow fever etc			
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### Livelihood Strategies of Respondents: On-farm, off-farm, Wage Labour, Migration

20. During the last 12 months, did the knowledge acquired in the trainings influenced changes in the following livelihood strategies if you are engaged in them:

Livelihood Strategy	Yes = 1 No = 0	How?
<b>On-farm activities</b>		
Cultivated land area		
Types of livestock's kept		
Agro-processing		
Fisheries		
Agro-forestry		
<b>OFF-FARM</b>		
Wage labour engaged in		
Migrated to work for wage		
Services( clothing and tailoring, mechanics, electronic assembly etc)		
Commerce/Petty trading		
Cottage industry Manufacture (e.g. blacksmith, tinsmith, Ceramics, bricks and cement, wood furniture, soap and detergents, fabrics, textile and leather, fabrics, bakeries)		

### ENTERPRISE LEVEL OUTCOMES: (INCOME, LABOUR, AND PROFIT)

21. During the last 12 months, did you make any of the following changes to your enterprise activity because you belong to the group?

Enterprise Activity (Read list of possible changes. Mark the appropriate box with an X)	Yes=1	No=0	Don't know=99
a. Expand size of enterprise			
b. Added new enterprise			

c. Hired more workers			
d. Improved quality or desirability of product/added value			
e. Reduced costs by buying inputs in larger volume/add value			
f. Reduced cost with cheaper source of credit			
g. Developed a new enterprise			
h. Sold in new markets/locations			
During the last 12 months, did you purchase or invest in any of the following assets for your enterprise activity because you belong to the group? (Read list of possible changes. Mark the appropriate box with an X)	Yes=1	No=0	Don't know=99
Purchased small tools/accessories such as cooking utensils, hoes, ploughs, basins, barrels, sacks etc			
Purchased major tools such as stoves, equipment, machinery			
Purchased own means of transportation such as bicycle, pushcart, donkey cart			
Invested in a storage structure such as a granary, livestock etc			
Made a minor investment in your marketing site by purchasing a chair, table, shed or they like			
Invested in structures for your marketing site (kiosk, shop)			
Buy land for building a house etc			

### Personal level Savings and Enterprise Skills outputs/outcomes:

**22.** Do you currently have any personal cash savings that you keep in case of emergencies or because you plan to make a major purchase or investment?

Yes=1                      No=0                      99= Don't know

**23** (If yes to 19) where do you save?

1 =home              2 = with group      3 = with the bank              4 = family member or friend

**24.** During the last 12 months, has your personal cash savings.... because of your membership of your group? (Read answers and enter response)

1=Decreased greatly              2=Decreased              3=stayed the same      4=Increased

5=Increased greatly              99= Don't know

**25.** When you are deciding to undertake an enterprise, what factors do you consider? (Do not read answers. Multiple answers are possible. Probe by asking "anything else?")

1=work I am familiar with/It is the season/others are doing it

2=How much working capital is needed

3=whether the product or service is in demand or whether it seems profitable

4=whether I can do it and still care of my family and other responsibilities

5= other (specify) 99= Don't know

**26. In managing your enterprise do you do the following?**

	Mark the appropriate answer			26. b. Is this a practice you have adopted since you joined the program	
	Yes=1	NO=0	DK=99	Yes=1	No=0
a. Do you keep your enterprise money separate from the money you have for personal and household expenses?					
b. Do you calculate your profit based on your records costs and earnings?					
c. Do you know which product(s) bring you the most profit?					
d. Do you pay yourself a wage for your work in your enterprise?					
e. Do you have a fixed location with protection from the sun and rain for selling your products such as a stall, store, or kiosk?					
f. Do you have a fixed location for producing or storing your products that is different from the location where your family lives					
g. During the last 12 months and above have you allow credit sales?					
h. During the last 12 months and beyond have you faced any problem(s) with your business operations?					
i. During the last 12 months have you planned to bring about any change/innovation in your business?					

j. During the last 12 months have you implemented any change/innovation in your business?					
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### Household Level Welfare Outcomes: Housing Improvements

27. Is your house rented or owned 1=rented 0= own

28. During the last 2 years, were any repairs, improvements or additions made to your home that cost more than ₵50.00

Yes=1

NO=0

Don't know=99

29. If "yes" to #26 which of the following have you done in the last two years?

Housing Repairs, Improvements, or Additions	a.(Read and check if "yes")	b. Were you a member of the program when this was done?(mark with an X)	
		Yes=1	No=0
a. House repairs or improvements (for example, fixed or improved existing roof, floor, or walls)			
b. House expansion(for example, built new room, shed, attic or fence)			
c. Improved water or sanitation system (for example, new well, drainage/sewage, or showers-latrines-wash basin)			
d. Lighting/electricity			

### Household Level Welfare Outcomes: Diet and Coping with Difficult Times

30. During the last 12 months has your household's diet (*read answers and indicate response*)

1 = worsened

2 = Stayed the same

3 = Improved

99 = don't know

31. (*If worsened*) How has it worsened? -----)

**32.** (If improved) How has it improve? (Multiple answer's possible. Probe by asking, "And anything else?")

a. ....

b. ....

c. ....

**33.** During the last 12 months, was there ever a time when it was necessary for your household to eat less or eat well because of a lack of food or lack of money to buy food?

Yes = 1

No = 0

Don't

know = 99

**34.** How long did this period last? (Specify number of months) Don't know = 99

**35.** What did your household do to get through this difficult situation? (Read answers. Multiple answers possible).

1 = Borrowed money or food from cost family/friend at no cost

2 = Borrowed money or food at

3 = sold personal property

4 = self or someone else in family

5 = Self or someone else in

family got local employment left area to seek employment

6 = other (specify)

99 = don't know

**36.** During the last 12 months, was there ever a time when you did not have enough money to conduct your enterprise?

1=Yes

0 = No

99 = Don't know

**37.** How long did this period last? Specify number of months..... 99 = Don't know

**38.** Did you face any difficulty repaying your loan to the group in the last loan cycle?

1 = Yes

0 = No

99 = Don't know

**39.** (I yes to 35) what caused your repayment problems? (Do not read answers. Probe.)

1 = loan activity was not profitable sick

2 = I or others in my family had been

3 = Used some of the loan money

4 = Sold on credit and did not get paid back in time for food or other items for the family 5 = other (specify) 99 = Don't know

**40.** Name three things you like most about the group that you belong to beginning with the most liked first.

a. ....

b. ....

c.....

**41.** Name three things you least like about the group you belong to, with the least like first.

a.....

b.....

c.....

**42.** If you could change something about the Group (CwE /VSLA) programme to make it even better, what would you change?.....

**43.** What benefits can you say you have derived from your group savings and loans to your enterprise and your livelihood over the years?

	Benefit of loans to client enterprise	Benefit of loan to client livelihood
Savings		
Loans		