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Success of Microfinance Institutions: The Ghanaian Experience

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Abstract

Success in microfinance refers to measures which when adopted will significantly improve the life and operations of the institutions though many authors have different views on what constitute success. The following imperatives have been used to scan success of microfinance institutions (MFIs): acquiring more clients, effective and efficient loan processing, effective record keeping, increased savings, external and internal audits, level of staff remuneration and staff turnover rate. The research was based on both qualitative and quantitative approaches. First, interviews were held with selected CEOs from all the categories of MFIs in Ghana. This was followed by self-administered survey involving 130 microfinance institutions. The results indicated that all the perceived factors were significant in determining the success of MFIs.

Key words: Success; Microfinance; Sustainability; Remuneration

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INTRODUCTION

In Ghana, the financial liberalization policies of the 1980's coupled with a relaxed regulatory environment for microfinance resulted in tremendous growth and spread of microfinance institutions (Steel & Andah, 2003). Aryeetey & Gockel (1991), show that microfinance institutions are pivotal as far as credit for development is concerned. However, the question being asked is the extent to which these MFIs are successful in their operations, in other words, the critical success factors which when adopted will ensure that they remain sustainable. The sustainability of microfinance institutions therefore hinges on an effective management of these factors. This study provides a focus on how microfinance institutions are employing these success factors and how they impact on their performance and eventual sustainability. According to Ledgerwood (2006, pp3) MFIs must understand that successful mobilization of savings from the public, including low-income people changes the institution profoundly and irreversibly.

1. OBJECTIVE OF THE STUDY

The main objective of the study is to examine the extent to which success factors affect sustainability of Microfinance institutions in Ghana. In specifics, the study measures success of MFIs in terms of seven variables: growth of clients, loan processing periods, clients record tracking and tracking mechanisms, discount for prompt repayment, saving schemes, internal and external audit systems, staff remuneration and turnover.

2. THEORETICAL FRAMEWORK

Success in microfinance refers to measures which, when adopted will significantly improve the life and operations of the institution. Many authors have different opinions on what constitutes success. Yaron (1994), Jain (1996), and Sharma *et al.* (1997) are of the view that the success of Grameen Bank and MFIs in general lies in the adoption of strategic credit policies. Some authors see institutional development, that is engaging in activities that on the surface are not directly linked to the first duty of credit allocation such as training of clients in entrepreneurial development skills and social development have also been found to make MFIs a success.

Again, Sharma and Zeller (1997), Navajas *et al.* (2000) have generally agreed to most or all of these factors as being very effective in determining the success or otherwise of MFIs. And for this reason, four microfinance institutions, Bank for Agriculture and Agricultural Cooperative (BAAC) in Thailand, Badan Kredit Kecamatan (BKK) and Bank Rakyat Indonesia Unit Desa (BUD) both in Indonesia and Grameen Bank (BK) in Bangladesh were classified as very successful in the early 1990s. An important phenomenon that characterized these institutions were; the number of clientele they had, time taken to process a loan for a client, record keeping, savings mobilized/discounts given to clients, internal/external audit, staff remuneration, staff turnover and performance.

2.1 Which Success Factors Significantly Impact on Operations of MFIs?

In measuring the degree of success of MFIs, theorists have settled on seven main factors including number of clients of the MFI, how effective they process loans for their client, record keeping, savings/discount offers to clients, auditing, staff remuneration and staff turnover. Consequently, we put forward seven hypotheses which were tested to draw conclusion on each variable measured.

2.2 Number of Clients and Success of MFIs

According to Zeller and Meyer (2002), when the microfinance movement started, the focus was on improving the outreach of microfinance institutions to the poor, that is on serving more of the poor (breadth of outreach) and more of the poorest of the poor (depth of outreach). It is believed that the more clients that an MFI has the more sustainable it will be, since they will take more loans which will translate into more on-lending interest to be earned by the MFI.

We therefore put forward the hypothesis that:

H_1: If the MFI's acquire more new clients, then success will significantly increase.

2.3 Loan Processing and Success of MFIs

How long an MFI takes to process loans for its clients is very important and has a bearing on efficiency and effectiveness and confidence that clients ultimately will have in the institution. Again, the number of officers who would be involved in the operation from the beginning to the time of the loan disbursement affects the success of the institution, but to what extent?

The hypothesis is:

H_2: If loan processing is efficiently and effectively managed, then success of MFIs will increase.

2.4 Record Keeping and Success of MFIs

Keeping records of clients, which enables the MFIs to monitor them effectively is clearly very important and central to the achievement of success. This will ultimately impact on the rate of loan defaulting as it will be seen from the records. What is not known is the degree to which record keeping affects the operations of MFIs.

The hypothesis is:

H_3: If record keeping is effective, then success of MFIs increases.

2.5 Savings/Discounts and Success of MFIs

According to Zeller and Meyer (2002), some microfinance institutions require their clients to show good faith by accumulating savings before seeking a loan, whereas others entirely neglect the importance of savings for the poor. The famous Grameen Bank created savings accounts for all its customers with a fixed fraction of the loan disbursed and funds in those accounts could only be withdrawn upon leaving the programme. In principle, the compulsory savings programme was meant to help clients build up assets over time and develop the discipline of savings (Armendariz de Aghion & Morduch, 2005). However, many authors see these involuntary savings accounts as a way for the banks and the institutions to acquire relatively cheap capital and to secure a form of collateral from borrowers. Some MFIs give discounts to clients for early repayments and some do not. From the foregoing the question to ask is to what extent is savings/discounts critical to the operations of MFIs?

The hypothesis posed is:

H_4: If savings increase in MFIs, then success will also increase significantly.

2.6 Internal/External Audits and Success of MFIs

The institution of internal and external audits ensures that the laid down rules of the organization are adhered to with the ultimate result that the organization becomes profitable. In microfinance, sustainability and success can be linked to how effective and efficient the internal and external audit function is. What is unknown is the extent to which this function impacts on MFIs.

The hypothesis is:

H_5: If the internal and external audit divisions function properly, then success will increase.

2.7 Staff Remuneration and success of MFIs

During the exploratory research, one Chief Executive remarked "*In terms of salaries, I can say that we are not the best within the industry, nor are the worst. We complement the remunerations with good training for our staff but this also adversely affects us ultimately. Our staff members are constantly being poached by other big firms with very attractive offers. You know our operations to a large extent depends on our staff*".

The hypothesis is:

H_6: If staff remuneration is high, then success will increase.

2.8 Staff Turnover/Performance

A high staff turnover may be indicative of staff dissatisfaction with their conditions of service and the contrary would hold true for low turnover. How does this impact on success of MFIs?

The hypothesis is:

H_7: If staff turnover is low, then success will also increase.

3. RESEARCH METHODOLOGY

The research was based on both the qualitative and quantitative approaches. A two stage approach was used. Interviews and self- administered surveys were employed involving 130 microfinance institutions.

3.1 Data Source

Data for this study were collected from two sources; the financial reports (secondary) and structured questionnaires and interviews (primary) to elicit information on these success factors.

3.2 Sampling Frame and Sample Size

The sampling frame included managing directors/ financial managers from microfinance institutions in seven out of the ten regions of Ghana; Greater Accra, Eastern, Central, Western, Ashanti, Northern and Volta regions. A sampling frame consists of all potential elements and respondents that are intended to be sampled (Churchill & Iacobucci, 2002).

3.3 Sampling Procedure

The method for defining and creating the most appropriate sampling technique is a significant part of the research design (Lehmann, Gupta & Steckel, 1998). As one of the objectives of this research was to describe the factors that success of MFIs, it was determined that the most appropriate sampling method to utilize was a 'two phased' stratified random sampling technique (Churchill, 2000). The stratum development began by assessing the regional distribution. From there the microfinance institutions located in the regions were determined. The next stage involved the aggregation of coverage by examining the regions with the high number of MFIs. The selection of Greater Accra, Central, Western, Eastern, Ashanti, Northern and Volta regions gave 130 MFIs, representing 74.4%. The importance of achieving a high coverage is to ensure that the intensity of activities is captured to allow for the creation of a proportionate representation of the population within the research (Henry 1990; Frankfort-Nachimias & Nachimias, 1996). Limiting the coverage to all except Upper East, Upper West and Brong Ahafo was equally influenced by time and limited financial resources available for this research.

A greater heterogeneity is required to allow for group analysis which also called for bigger sample size. A non-response rate is generally high for researches in LDCs, it was therefore considered prudent to have larger sample size to ensure that adequate number of responses is obtained for effective analysis (see Table 1).

Table 1
Sample Frame Analysis

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

3.4 Data Collection Method

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

3.5 Data Analysis

A two-stage approach was used in analyzing the data for the study. The first stage where success was measured at the nominal level (yes=1, and no=0) which led to the use of the logistic regression and the chi-square test. The second stage was where success was measured by attaching values to the responses of selected variables that related to Institutional characteristics. The scores were then aggregated to produce interval level variable leading to the use of ANOVA and MANOVA.

4. RESULTS

4.1 Hypotheses testing on impact of MFI's Successes

Jain (1996) is of the view that the success of Grameen Bank and MFIs in general lies in the adoption of such policies which he terms "strategic credit policies". Yaron (1994), Khandker and Khan (1995), Schreiner and Yaron (1999) have further gone ahead to define success as economic sustainability and institutional viability as a means of measuring the success of MFIs. The construct for success of the MFI's include client growth, effective and efficient loan processing, good record keeping, increased savings by clients, availability of proper internal and external auditing systems, high staff remuneration, and low staff labor turnover. In an attempt to determine how these factors impact on the success of MFI's seven hypotheses were postulated and tested.

4.2 Client Growth and Success of MFI

The growth of client may enhance the success of the MFI's through increased returns on loans granted to clients. Expectations are that if the MFI's acquire more clients they may be described as being successful and ultimately sustainable. It was therefore hypothesized that:

H1: If the MFI's acquire more new clients, then success will significantly increase.

On clients growth and success, the result (X^2=22.20, df=1 and p<0.000) was recorded This means that increases in the level or numbers of new clients correspond with increased level of success of MFIs. Thus the more clients MFIs get, the more successful they will become through increased outreach and more on-lending interests. Therefore at 95% significance level the *hypothesis that if the MFIs acquire more new clients, then success will significantly increase was supported.*

4.3 Loan Processing and Success of MFI

Prompt loan processing induces confidence in client about the institution. This however, depends on a host of factors including the quality of information provided by clients for the purpose of conducting background checks, and the number of loan officers involved in the processing of documents and the time of receipt of clients request to the time of disbursement of the loan to the clients. In order to ascertain how the loan processing systems impact on the success of the MFI's, it was hypothesized that:

H2: If loan processing is effectively and efficiently managed, then success of MFI's will increase.

The results in Table 2 show the relationship between the loan processing period of the MFI and the perceived level of success of the MFI.

Table 2
Loan Processing Period and Level of Success of MFI

Loan processing period	Level of Success of MFI					Total
	Successful	Moderately successful	Fairly successful	Unsuccessful	Very Unsuccessful	
Within 24 hours	-	-	-	-	-	-
1 day – 1 week	41(71.9%)	36 (70.6%)	-	-	-	77(67.5%)
1 – 2weeks	10 (17.5%)	11(21.5%)	6 (100%)	-	-	27(23.7%)
More than 2 weeks	6 (10.6%)	4 (7.9%)	-	-	-	10(8.8%)
Total	57(100%)	51(100%)	6 (100%)	-	-	114(100%)

It can be observed that whilst the majority (71.9%) of the MFI's who processed clients loans promptly were perceived as successful, those of the MFI's who delay in processing clients loan were perceived as less successful. The chi-square test yielded (X^2=21.01, df=4, p<0.011). This means that there was a significant relationship between loan processing period of the MFI and the perceived level of success of the MFI. Thus, those MFI's who processed clients loans promptly were perceived to be successful. Therefore at the 0.05 level, the hypothesis that if loan processing is effectively and efficiently managed, then success of MFI's will increase significantly was supported.

4.4 Record keeping and Success of MFI

Keeping records of clients enables MFIs to effectively monitor their clients towards achieving success. Since good records' keeping enhances accountability, transparency and efficient administration, it was hypothesized that:

H3: If record keeping is effective, then success of MFI's will increase.

The result in Table 3 shows that 89.4% of the MFIs who monitored their clients' records effectively were to a large extent successful as compared to 10.6% of the MFIs who said they were moderately successful because some clients still managed to elude them despite the detailed information they had about them.

Table 3
Tracking and Keeping of Clients' Records and Level of Success of MFI

Tracking and keeping of clients records	Level of Success of MFI					Total
	Successful	Moderately successful	Fairly successful	Unsuccessful	Very Unsuccessful	
Yes	102 (89.4%)	12 (10.6%)	-	-	-	114 (100%)
No	-	-	-	-	-	-
Total	102 (89.4%)	12 (10.6%)	-	-	-	114 (100%)

The results in Table 3 thus shows a significant relationship between tracking of clients records and the level of success of the MFI's, thus MFIs who kept an effective clients records systems were perceived as successful than those who did not (X^2=25.14, df=1 and p<0.00). Hence, at the 95% significance level we accept the hypothesis that if loan processing is efficient and effectively managed, then success of MFI's will increase.

4.5 Savings and Success of MFI

A compulsory savings programme helps clients of microfinance institutions to build up assets over time and develop the discipline of savings (Armendariz de Aghion & Morduch, 2005). This in a way also helps the institutions to acquire capital and to secure a form of collateral from borrowers thereby enhancing the success of the microfinance institution. All the microfinance institutions except the FNGOs indicated that deposit taking were very critical to the growth of their organizations. The FNGOs by law are not allowed to take deposits from clients. However, most of the Chief Executive Officers interviewed indicated that they would be happy to see that law amended to enable them take deposits since they believed that deposit collection from clients significantly impacts on success of MFIs. Of the 81 FNGOs sampled, 72 (88.8%) believed their operations would be better enhanced by deposit taking. Only 9 (11.1%) indicated that deposit taking has no bearing on the success of their operations. In line with this it was hypothesized that:

H4: If savings increase in MFI's, then success of MFI's will also increase significantly.

Table 4
Operation of Savings Scheme and Level of Success of MFI

Operation of saving scheme	Level of Success of MFI					Total
	Successful	Moderately successful	Fairly successful	Unsuccessful	Very Unsuccessful	
Yes	33(78.6%)	72(100%)	-	-	-	105 92.1%)
No	9(21.4%)	-	-	-	-	9 (7.9%)
Total	42(100%)	72(100%)	-	-	-	114 (100%)

The results in Table 4 show the level of success of the MFI's as against the operation of savings scheme. It can be observed that 33 (78.9%) of the MFI's operated saving schemes and those who believe that it would impact on their businesses as against 9 (21.4%) who did not think deposit taking had any success effect on their operations. The test results, that is (X^2 =21.12, df=1 and p<0.012), indicates a significant relationship between availability of saving scheme and level of success of MFI. Therefore at the 95% significance level the hypothesis that if savings increase in MFI's, then success of MFI's will also increase significantly was supported.

4.6 Audit Systems and Success of MFIs

Evidence of internal and external financial audit system was used as a precursor to audits which ensures that the laid down rules of the organization are adhered to with the ultimate result that the organization becomes profitable. Given that the availability of the internal and external audits is indicative of a properly functioning system, it was hypothesized that:

H5: If the internal and external audit divisions function properly, then success of MFI's will increase.

Table 5
Availability of Properly Functioning Audit Unit and Level of Success of MFI

Availability of properly functioning audit unit	Level of Success of MFI					Total
	Successful	Moderately successful	Fairly successful	Unsuccessful	Very Unsuccessful	
Yes	110 (100%)	-	-	-	-	110 (96.5%)
No	-	-	-	4 (100%)	-	4 (3.5%)
Total	110 (100%)	-	-	4 (100%)	-	114 (100%)

The results in Table 5 show that the perceived level of success of the MFI's was dependent on the availability of properly functioning audit units. That is the MFI's with properly functioning audit units were perceived to be successful (96.5%) than those who were without. (3.5%) of these, were mostly the Susu institutions. The test results was X^2=20.05, df=1 and p<0.00, which means that at the 95% significance level the hypothesis that if the internal and external audit divisions function properly, then the success of the MFI's will increase was supported.

4.7 Staff Remuneration and Success of MFI

Motivation in the form of salary, no doubt has great impact on employee job satisfaction and performance. It is thus obvious that when there is salary differentials within a particular industry, poaching will be high and employees in organizations with low remuneration will be most attracted to those institutions with higher remuneration. To ascertain if the success of the MFI's was dependent on the staff remuneration, it was hypothesized that:

H6: If staff remuneration is high, then success of MFI's will increase.

Table 6
Level of Staff Remuneration and Level of Success of MFI

Level of staff remuneration	Level of Success of MFI					Total
	Successful	Moderately successful	Fairly successful	Unsuccessful	Very Unsuccessful	
Low	-	-	4 (3.5%)	-	-	4 (3.5%)
Moderate	-	-	-	-	-	-
High	110(96.5%)	-	-	-	-	110 (96.5%)
Total	110(96.5%)	-	4 (3.5%)	-	-	114 (100%)

From Table 6 it can be observed that the perceived level of success of the MFI's was dependent on the level of staff remuneration. That is the MFI's with high staff remuneration were perceived to be successful (96.5%) than those with low remuneration whose level of success was low (3.5%). The test results was X^2=21.12, df=1 and p<0.001, which means that at the 95% significance level, the hypothesis that if MFI's staff remuneration was high, then the success of the MFI will increase was supported.

4.8 Staff Turnover and Success of MFI

When employee turnover is low, organizations are able to save on cost of recruitment and hiring and rehiring of employees to replace departed staff while retaining their high quality staff. High staff turnover has been strongly linked to staff remuneration, dissatisfaction among staff due to poor conditions of service, lack of career development, among others. In order to determine the impact of staff turnover on the success of the MFI's it was hypothesized that:

H7: If staff turnover is low, then success of MFI's will also increase.

The results show that the assertion that if staff turnover is low then success factors will increase is true. A chi-square result of X^2=20.15, df=1 and p<0.002 was recorded. This means that if MFIs are able to retain their staff for long periods then they will be perceived as successful and therefore at the 95% significance level *the hypothesis that if staff turnover is low then success of MFIs will also increase was supported.*

Table 7
Summary Table for Hypotheses on Success of MFI's

Hypotheses	Impact on MFI	Test Results
H_1 If *the MFI's acquire more new clients, then success will significantly increase.*	Positive	Positive and significant
H_2 *If loan processing is effectively and efficiently managed, then success of MFI's will increase.*	Positive	Positive and significant
H_3 *If record keeping is effective, then success of MFI's will increase.*	Positive	Positive and significant
H_4 *If savings increase in MFI's, then success of MFI's will also increase significantly*	Positive	Positive and significant
H_5 *If the internal and external audit divisions function properly, then success of MFI's will increase.*	Positive	Positive and significant

To be continued

Continued

Hypotheses	Impact on MFI	Test Results
H_6 *If staff remuneration is high, then and success of MFI's will increase.*	Positive	Positive and significant
H_7 *If staff turnover is low, then success of MFI's will also increase.*	Positive	Positive and significant

5. DISCUSSION AND POLICY IMPLICATIONS

The result of the study revealed that success of the MFI's depended on some factors. In all instances the success was found to be dependent on client growth, loan processing period, good record keeping, savings, effective functioning of audit systems, staff remuneration and staff turnover. Therefore, in an attempt to improve the success of MFIs in Ghana, managements of MFIs should put in strategies that will focus on enhancing the significance of these variables in their institutions. For example, MFIs should concentrate on winning more clients to the scheme through effective outreach programmes and promotions in a bid to increase clientele. They should also put in strategies that will fast track loan processing and at the same time ensuring strict adherence to credit policies and checks. Human resources strategies also need to be strengthened to improve remuneration and to reduce labor turnover in their institutions.

CONCLUSIONS

The study results support all the success factors of acquiring more clients, effective and efficient loan processing, effective record keeping, increased savings, external and internal audits, high staff remuneration and low staff turnover in Ghanaian.

Institutional capacity building is amongst the principles for success. Capacity building, in the form of a skilled and professional human capital base coupled with decent remuneration is essential for the building of a sustainable and efficient microfinance sector. With regard to human capital, there is the need to develop consistent, comprehensive and coherent training, targeting the existing and potential employees and taking into consideration their respective roles and responsibilities as well as their needs. This is a means of ensuring a low staff turnover. Internal and external audits are necessary especially where most of the MFIs depend on subsidies and grants from donors. Compulsory savings that are associated with MFIs provides an opportunity for members to begin to accumulate their own financial resources reducing their vulnerability to crisis and dependency on outside credit sources. It also serves as a form of security for the group in times of default. These funds also serve as a source of increased savings to support its lending programme especially in this era of limited grants from donors and development partners.

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