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Expanding Rural Economies through Microfinance: Chronicling the Experience of Microcredit Clients of the Upper Manya Krobo Rural Bank of the Eastern Region of Ghana

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Abstract
Micro and small enterprises constitute an important feature of the economy of many countries. They are significant to socio-economic development and serves as important sources of employment and wealth creation. However, small businesses face teething financial challenges to operate effectively and efficiently. The microfinance paradigm which emerged in the 1970s was geared at providing financial services to poor entrepreneurs to enhance their activities and social welfare. This paper assesses the contributions of the Upper Manya Krobo Rural Bank's (UPKRB) microcredit programme to business and household outcomes. The article is based on a doctoral research output that employed mixed methods approach. It therefore used structured questionnaire, in-depth interview guide and focus group discussion guide to gather both quantitative and qualitative data. The sample size was 420 exited, repeated and permanent clients. The data was processed and analyzed using SPSS version 16 to generate descriptive results. To assess the probability of microcredit clients experiencing positive or negative business and household outcomes, STATA was used to generate probit regression models. One main finding of the paper is that, 72 percent of microcredit clients have achieved growth in financial, human, social, physical and natural assets. It also emerged that, using part of the loan for other purposes has no correlation with loan repayment difficulties. It is recommended to Microfinance Institutions of the need to consider discouraging the deduction of risk management fees from loans granted to clients since groups are jointly liable in the event of a member's loan default.
Keywords: Economies, Microfinance, Microcredit, ManyaKrobo Bank

Introduction

Globally, microfinance has emerged as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming the lives of poor people. Consequently, the United Nations (UN) declared 2005 as the International Year of Microcredit to build world-wide support for countries to strengthen microfinance institutions to enable poor people have access to institutional credit to improve on their income generating activities (www.yearofmicrocredit.org). Microcredit has since become popular as the number of microfinance institutions increased and the number of people who received credit from these institutions continues to rise all over the world (Daley- Harris, 2008). The 2011 Microcredit Summit Campaign has reported that as at December 31, 2010, 3,652 microfinance institutions reached out to 205,314,502 clients, 69 percent of whom were among the poorest when they took their first loan. Out of the poorest clients, 82.3 percent were women (Berg & Emraan (2011).

According to the Consultative Group to Assist the Poorest (CGAP), mounting evidences have emerged in many developing countries to show that microfinance is helping to achieve the Millennium Development Goals [MDGs] (CGAP, 2010a). Access to financial capital is the livewire of any business entity. To Peachey and Roe (2004), access to financial capital is a 'public good' just like access to safe drinking water, education and basic health facilities. The authors argue that lack of financial capital for people to engage in productive ventures, is one of the main reasons why many people in developing countries remain poor.

The rationale

Indeed, empirical studies have shown that micro-finance helps very poor households to meet basic needs and protects against risks, and is thus associated with improvements in household economic welfare. Gender activists have argued that microfinance helps in empowering women by supporting economic participation and promoting gender equity. Other strands of the literature suggest that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through group formation and social networks, enables poor people to move out of poverty. By providing financial capital to the poor, their sense of dignity is strengthened and this helps to raise self-esteem and wiliness to participate in economic and societal activities (Otero, 1999). This paper assessed the extent to which the microcredit clients of the Upper Manya Krobo Rural Bank's microcredit programme, have achieved growth in financial, human, social, and physical assets. It also investigates gaps in the implementation process of the Upper Manya Krobo microcredit programme and makes recommendations to enhance the operation of microcredit in the Upper Manya Krobo District. The rest of the paper is organized as follows: Section Two reviews the literature focusing on empirical studies on microcredit success stories in some developing countries; while section Three discusses financing and business development initiatives in Ghana. The Fourth section briefly describes the Upper Manya Brobo Rural bank. The Fifth section presents the methodology while the Sixth section deals with the key findings of the paper.

Synergy among microcredit, wealth creation poverty reduction

Poor people's access to microcredit often reflects in improved living conditions and better prospects for children's futures. Through microcredit, poor people, especially women have been energized to become economically self-sufficient and emotionally self-confident to assume responsible positions in society. This is due to the fact that even without collateral securities, poor people could access credit to improve on their income generating activities to enhance living standards and household welfare.

Several studies have demonstrated the positive contribution of microcredit to wealth creation and poverty reduction in both developed and in developing countries. For example, in a study involving borrowers of Bank Rakyat of Indonesia on the island of Lombok, Panjaitan- Drioadisuryo, Rositan and Cloud (1999) reports that on average, the income of clients has increased by 100 percent, and the households of 90 percent experienced increase in income which was enough to move them above the poverty line. Women clients have assumed higher aspirations for their children's education and were more likely to establish social networks compared to non-programme participants.

Simanowitz (2003), studied the clients of the Society for Helping, Awakening Rural poor through Education (SHARE) in India, and found that three- fourths of SHARE clients who participated for longer periods experienced significant improvement in economic well-being which includes higher income, and ownership of physical assets. The study also found that half of the clients graduated out of poverty and there was a marked shift in the employment patterns of clients, from irregular, low-paid daily labour to diversified sources of earnings. The study observed that over half of SHARE clients used profits from their businesses to pay for major social events.

Barnes, Gaile and Kimbombo (2001) used a longitudinal study to analyse the activities of the Foundation for International Community Assistance, (FINCA), the Foundation for Credit and Community Assistance (FOCCAS) and the Promotion of Rural Initiative and Development (PRIDE) in Uganda. They found that 43 percent of clients of the three programmes compared to 31 per cent non-clients reported an increase in profits from their businesses which they supported with their loans. The authors also noted that programme participants were more likely to become home-owners (10 percent versus 1 percent for non-clients) and spent significantly more on children's school fees. Many of the clients increased their acquisition of durable assets, while at the same time, improved their savings over the previous two years, compared to a third of the comparison group.

In another study, Zeller, Sharma, Ahmed and Rashid (2001) and Aminul, Taskinur and McAlliter, (2011) noted that access to microcredit has contributed significantly to income generation among microcredit clients. According to the study, every 100 taka of credit accessed generates an additional 37 taka of annual household income for the Association for Social Advance (ASA) members compared to non-members. Tripathi (2006) also undertook an impact evaluation of members of the International Catholic Migration Commission (ICMC) in Bosnia and Herzogovinia and came out with mixed results from her study. The study used new clients as a comparison group. Tripathi's study revealed that more clients than non-clients reported an increase in income over the previous years (40 percent versus 23.7 percent of non-clients), yet more clients than non-clients saw their incomes decrease, an indication of higher volatility of entrepreneurs' incomes. Nevertheless, clients reported higher household expenditure, and on various indices of well-being (consisting of household income, savings and expenditures) clients scored higher than non-clients in each instance.

In all the above studies however, the authors did not systematically examine the implementation processes of the microfinance interventions and why improved welfare occurred with regard to asset building, greater wealth and expenditure, increased in income, and increased children's education among microcredit participants. One may ask: What were the loans used for? Were the loans invested in businesses or used for smoothing consumption? Who were the borrowers and what were the modalities for the delivery of the loans? The studies were silent on how microcredit products such as loan quantum, loan disbursement or loan issues such as group formation and group structure influenced the observed findings. The issue of contextual factors is also not addressed. For example, it does not examine how groups were actually formed, the process of loan repayment, interest rate, punishment for defaulting clients and clients perceptions about the microcredit programmes. These issues have the potential to affect the outcomes of microcredit interventions. For instance, it would have been interesting to know whether the delivery of credit involved, preferential treatment (less poor) and other delivery practices such as time of loan disbursement, loan quantum etc., which can influence business outcomes.

Financing and business development initiatives in Ghana

Recognizing the critical role of small business activities in its growth and poverty reduction strategies, the government of Ghana has established a number of financial schemes with support from bilateral and multilateral institutions to enhance the productivity and wellbeing of micro, small and medium enterprises (SMEs) in the country. Institutions such as Entrepreneurs and Technology (EMPRETEC) Ghana Foundation, Support Programme for Enterprise Empowerment and Development (SPEED) and Ghana Venture Capital Trust (GVCT) among others, have operated financial and technical schemes that have benefited in particular, medium and large business establishments in the country. The National Board for Small Scale Industries (NBSSI) was established as an apex body to promote and develop micro and small enterprises in Ghana. NBSSI operates a revolving fund scheme with a seed capital from the government and other development partners. The loans granted from the revolving fund attract an interest rate of 20 percent which is below the lending rates of most commercial banks in the country. Payments are made through monthly installments to ease the burden of loan repayment (Docktor & Leo, 2008). No collaterals are required, but personal guarantors are to serve as security for the loans.

Besides, and in line with government's objective of promoting small business activities, the Government of Ghana has identified the private sector as the engine of growth and microfinance as a strategy for wealth creation and poverty reduction. The overall development policy which is encapsulated in the Growth and Poverty Reduction Strategy (GPRS 11) and Ghana's Shared Growth Development Agenda (GSGDA) documents also make microfinance integral to the poverty reduction efforts of the government (Gallardo 2002; Mahama, 2005; Atafori, 2006). In this effort, the Microfinance and Small Loans Centre (MASLOC) established in 2006 under the office of the President to serve as an apex institution of the microfinance sub-sector and to undertake reforms and development to strengthen microfinance as an effective and viable strategy for poverty reduction in the country. Furthermore, MASLOC is responsible for disbursing government funds for microfinance activities, and ensures judicious management of government and development partners' funds for microfinance activities. It also facilitates the emergence, development and growth of sustainable and decentralized microcredit services in the country (Mahama, 2005). The government has again played both roles as a provider and as a regulator of the microfinance industry through the provision of subsidized credit through the commercial and development banks, and through its ministries, departments and agencies.

In addition to MASLOC, is the Ghana Micro-Finance Institutions Network (GHAMFIN), an association of regulated and non-regulated microfinance institution that serves over 60,000 clients. Its members include institutions of different sizes and legal structures such as commercial banks, savings and loan institutions, NGOs, cooperatives, rural banks and traditional 'susu' savings clubs. GHAMFIN coordinates and support the activities of microfinance institutions with a view to promoting the development of efficient and sustainable microfinance industry in Ghana. Its main objective is to strengthen the capacity of MFIs through training and sensitization of government and shareholders on microfinance issues (Ayeetey & Fosu, 2002).

Ghana initiated Rural and Community Banking in 1976 to serve the special needs of the rural population and to fill the financing gap which had been created in rural settings as a result of the failure on the part of the orthodox banks to penetrate the rural economy. They operate as unit banks and are owned by members of the community through purchase of shares (Gallardo, Quattara, Randhawa & Steel, 2005; Mahama, 2005 & Bank of Ghana, 2008). Rural and Community Banks offer regular savings accounts, current accounts, susu deposits, and fixed or time deposits. Their credit products include microcredit loans, personal loans, salary loans, susu loans, and overdraft facilities. The overall performance of RCBs since their establishment in 1976, have been very impressive as the outreach of these banks have increased significantly in recent years. For example, the outreach of RCBs increased from 1.1 million depositors and 139,000 borrowers in 2000 to 2.8 million depositors and 680,000 borrowers in 2008, representing average annual growth of 14 percent and 27 percent for depositors and borrowers respectively (Ajai & Azeb, 2010). However, the contributions of many of these banks to employment generation, wealth creation and poverty reduction in their areas of operation are not known.

The Ghana Regional Appropriate Technology Industrial Service (GRATIS) Foundation in Ghana has the mandate to promote small-scale industrialization in through transferring appropriate technologies to small-scale industrialists through training, manufacturing and the supply of machine tools, plants and equipment. GRATIS operates through a network of Intermediate Technology Transfer Units (ITTUs), now referred to as Regional Technology Transfer Centres (RTTCs). The RTTC exist in nine regions of the country and is responsible for providing hands-on short and long term training for small business entrepreneurs in areas such as metal fabrication and design, textiles, pottery and soaping among others.

Directly concerned with wealth creation and improving living conditions among women and the vulnerable in rural areas through increased self-employment is the Rural Enterprise Project (REP). The Project provides micro and small business enterprises with development packages, involving a mix of business development services, technology transfer, support for apprenticeship training, and rural finance services. The Project is supported by the International Fund for Agricultural Development (IFAD), the Agricultural Development Bank (ADB) and the government of Ghana. REP in collaboration with NBSSI, Rural Banks, District Assemblies, GRATIS and other governmental organisations have been supporting the growth of informal sector activities in the rural areas. In conjunction with these organisations, the REP also provides training programmes in areas such as business management, record keeping, book keeping and banking procedures, marketing clinics, credit management, costing and pricing, business ethics and negotiation skills among others. It has been organizing annual exhibitions for its clients to show case their products and also expose them to markets in the urban areas. The activities of these institutions definitely have made some impacts on small business activities, especially in rural areas. However, as illustrated in this paper a lot more needs to be done to build the competence and capabilities of the micro small business enterprises to enable them contribute significantly to the rural economies.

Upper Manya Krobo Rural Bank

The Upper Manya Krobo Rural Bank (UMKRB) was established in 1982 to mobilize rural funds to improve lives in the district. As with all RCBs, the capital base of the UMKRB was obtained through the purchase of shares by members of the communities of the catchment area. The Bank has two agencies at Koforidua and Somanya and six mobilization centres at Asokore, Nkurakan, Agogo, Obawale, Sesesua and Akateng, all in the Eastern Region of Ghana. It started the implementation of a credit with education (CwE) microfinance programme in June 2001 at Asesewa through the collaborative effort of Freedom from Hunger Ghana and Plan Ghana. The UMKRB is a member of the "Ghana Club 100" in the rural banking category. It was ranked the best performing rural bank in the Eastern Region in 2006. Apart from the profit motive, UMKRB aims to improve the quality of live in the district by mobilizing resources to support economic activities and assisting to develop infrastructure such as road network, education and water (UMKRB, 2010).

UMKRB has been involved in many microfinance schemes such as the Poverty Alleviation Fund (PAF), Smallholder Crop Improvement and Marketing Project (SCIMP) project under IFAD and the Rural Finance Project under the International Development Association (IDA) since 2001. The bank also benefits from financial and technical support from some of the international agencies such as IDA and IFAD. As at December 2011, the Bank has a gross loan portfolio of US$5.8 million. The number of active borrowers were 13, 556 with loan deposits amounting to US$6.7 million. The microfinance department of the bank has a total of 11,200 clients, 93 percent (10,416) of which are women. This paper used data gathered from microcredit clients of the UMKRB to understand microcredit contribution to rural economic expansion and poverty reduction in rural areas of Ghana.

Methodology

The paper is based on mixed methods research approach. The study population comprised exit and current microcredit clients of the UMKRB. From a total of 7,584 active microcredit clients of the bank, a sample of 380 repeated and permanent clients were selected using Israel (2009) formula for determining the sample size if the target population is known, which is given as: $n = N/ [1+N(e)^2]$ where, n = the sample size N = population e = alpha level.

Additionally, 40 exit clients were purposively selected from the bank's record of a total of 56 of such clients. A structured interview schedule, in-depth interview guide and focus group discussion guide were used to gather both quantitative and qualitative data from microcredit clients and bank staff. The study defined new clients as those who joined the microcredit programme for not more than one year and have benefited from at most three loan cycles; repeated clients were clients who have been with the programme for more than three years; permanent clients were those who started with the programme since 2001 and are still participating in it, while exit clients were those who have participated in the programme at one point in time but have exited out from it as at the time of the study. Exit clients could be either graduates from the intervention who have saved enough and could access loan from the main banking system. Conversely, it could be those who for one reason or another have dropped-out of the microcredit programme. The data was processed and analyzed using the Statistical Product for Service Solutions (SPSS) version 16 to generate descriptive results. The unit of analysis was the entrepreneur or the business owner. For the purpose of this paper, an enterprise or income generating activity was defined as any non-farm income generating activity involving one to nine people. The paper therefore assumed that the owners/proprietors/entrepreneur of an enterprise who is a microcredit client is the first point to call in determining the influence of microcredit to business and household outcomes.

Results and discussions

The assessment of the contribution of the Upper Manya Krobo Rural Bank's microcredit programme to livelihood outcomes of clients has revealed some key results. The results which were further to ensure effective use of microcredit for poverty reduction and wealth creation in rural areas focuses on sex of respondents, level of education and implications for skill acquisition, source of capital, type, time of loan disbursement and loan use, borrowing from other sources and the issue of interest rate and savings implications.

Sex and level of education of respondents and implications for skill acquisition

The primary target of many microfinance interventions are women. This is due to the common belief that women invest the loans in productive activities and has better loan repayment records compared to men (Armendariz de Aghion & Morduch, 2005). The microcredit programme of the Upper Manya Kro Rural Bank was of no exception as 92.4 percent of the microcredit clients were women and 7.6 percent were men.

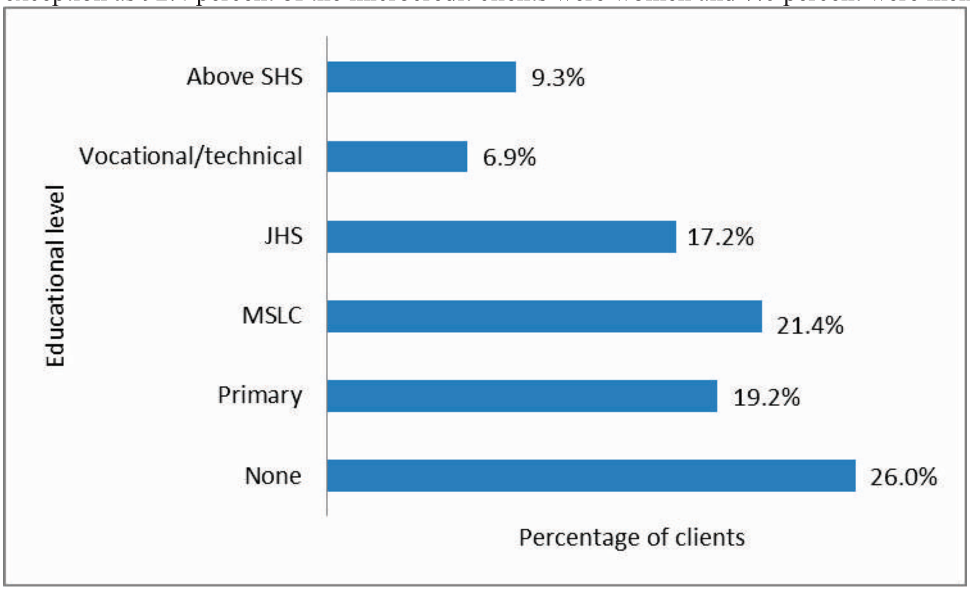

Figure 1: Educational level of respondents

Source: Field data, 2011

With regard to level of education it can be observed from Figure 1 that 26 percent of the microcredit clients have no education, while 19.2 percent and 21.4 percent have Primary and Middle School education respectively. Only 9.3 percent of the clients have attained senior secondary school qualification and higher.

It is expected that better educated clients would make better use of their loans and thus show more improvement in both business and household outcomes. However, over a fourth of the microcredit clients were illiterate. This is a handicap since it will restrict their ability to learn modern business techniques and the acquisition of technical capabilities to enhance their economic activities. Interviews with the bank staff revealed that the UMKRB's microcredit programme was initially based on the Credit with Education (CwE) methodology introduced by Freedom from Hunger, Ghana; however the educational component of the programme was terminated in 2004 for no apparent reasons. This needs to be reinstated to acquit the clients with skills to enable them perform better.

For example, in retail trade, business management techniques will enhance customer service relationship and proper business management ability. In the case of metal fabrication and repairs works, good education will enable the artisan to interpret very rudimentary engineering designs better and adopt a fairly standardized production system. With beauticians and dressmakers, the main mode of skills acquisition is through apprenticeship. However, due to the limitations of the skill trainers they cannot impart modern and proven skills to their apprentices. Consequently, there is recycling of prevailing skills among the apprentices (Tetteh & Frempong, 2009). It is therefore important to encourage institutions such as MASLOC, REP, GRATIS Foundation and its regional Technology Transfer Centres (RTTCs) to beef-up opportunities for small business entrepreneurs to upgrade and acquire more skills to support their businesses. Additionally, providing those with low education with non-formal educational needs will enable them take advantage of the National Vocational Training Institute (NVTI) to upgrade the technical and vocation competence.

Source of capital and type of business
Rural people have several sources of obtaining capital for their businesses. Some of these sources include personal savings, friends/family support, trade credit and money lenders (Tetteh & Frempong 2009).

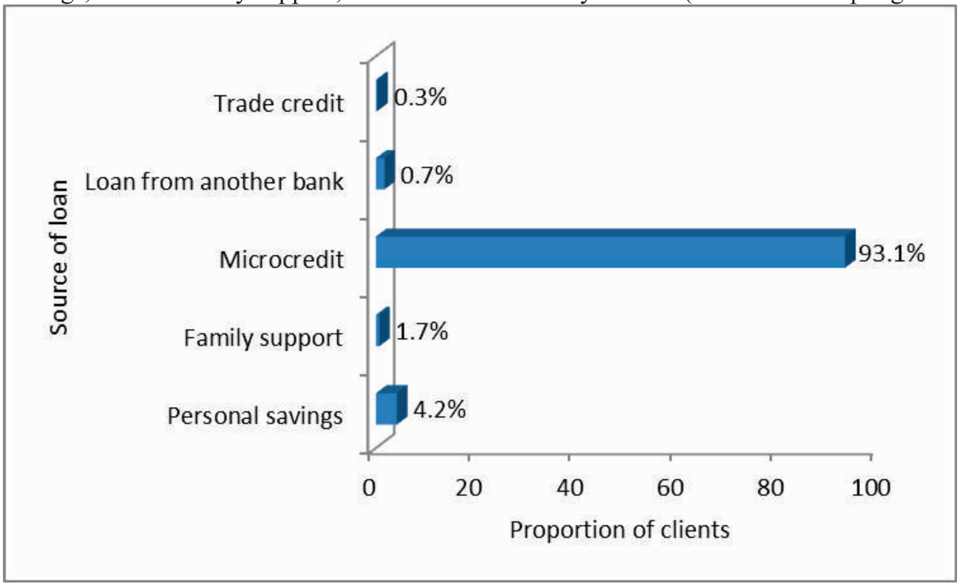

Figure 2: Main source of capital
Source: Field data, 2011
Figure 2 shows that, microcredit constituted the main source of business capital for 93.1 percent of the UMKRB's microcredit clients. Personal savings and friend/family support represents 4.2 percent and 1.7 percent respectively while trade credit and loan from other banks was only 1 percent of business finance.

Type of business	Frequency	Percent
Hairdressing	54	13.3
Repair works	2	.5
Fish mongering	31	7.6
Barbering	8	2.0
Dressmaking	42	10.3
Trader/shop keepers	203	49.9
Food vendor	26	6.4
Oil extracting	17	4.2
Wood works	7	1.7
Cloth weaving	14	3.4
Metal works	3	.7
Total	407	100.0

Table 1: Respondents' type of business
Source: Field data, 2011

The type of business activity determines the amount of capital it requires. Some of the businesses require bigger amount than could be accessed from the microcredit programme. Nonetheless, the risks associated with lending to small firms have restricted formal sector banks to adequately support such important entities. Lending to small businesses has been characterized by high default rates and high cost of credit administration, as a result only few banks are willing to provide entrepreneurs with financial assistance to improve on their businesses. This calls for the restructuring of microfinance institutions to increase loan quantum to their clients. In order to ensure that growth-oriented entrepreneurs receive adequate funding to run their enterprises, it imperative for institutions such as EMPRETEC, SPEED and GVCT to assume additional responsibilities of partnering with the NBSSI, MASLOC, Rural Banks, the REP, District Assemblies and other microfinance institutions to identify these entrepreneurs. Those with viable businesses can be trained and adequately funded to expand their horizon and achieve sustainable growth.

Time of loan disbursement, loan utilization and borrowing from other sources

New loans were disbursed when the previous cycle has been successfully completed by a group. Usually, group members receive their loans at the same time indicating that loans were taken when they became available rather than when individual members required them, a phenomenon also observed by Johnson and Rogaly (1997). The study assessed whether loans were received at convenient times. The rationale was to establish whether receipt of loans on schedule coincided with receipt of loans at a convenient time. The result indicates that about 90.7 percent of the clients received loans at a convenient time. This implies that although some loans were not received on schedule, they could still be at a period convenient to borrowers. This makes sense in a situation where loan borrowers could use loans for other purposes instead of solely investing it in their income generating activities. The loan might not be convenient for business at the time it was disbursed but it might be convenient for paying school fees or any other non-business purpose. In a rural area disbursement of loan at a convenient period is important if borrowers are to take advantage of fluctuating market opportunities.

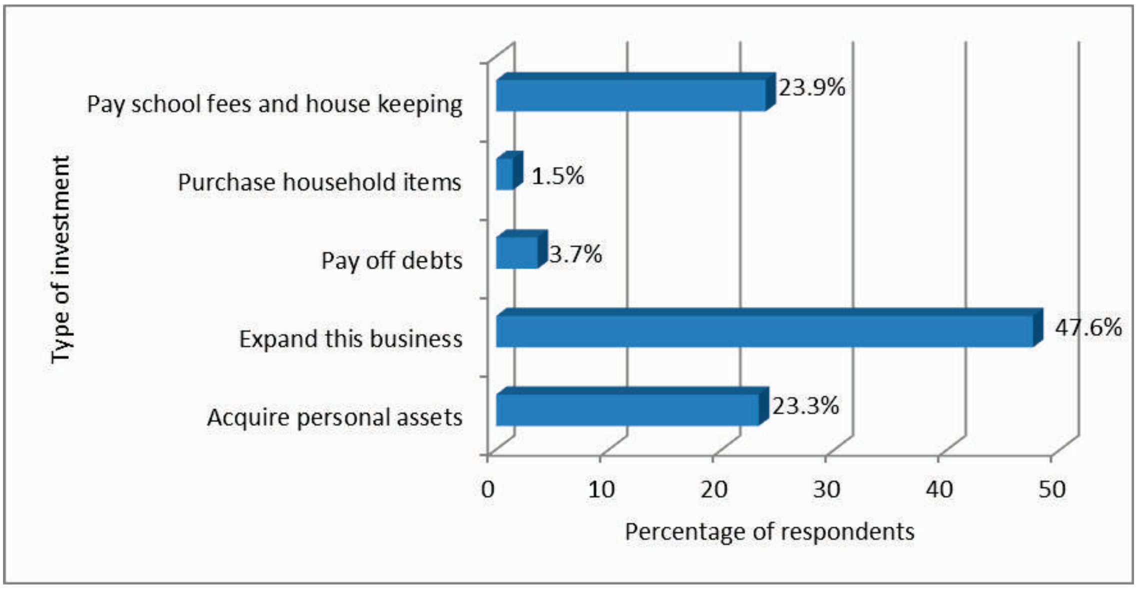

Figure 3: How respondents use loans

Source: Field data, 2011

Loan fungibility is the practice where the loan is used for another purpose instead of the intended purpose or the purpose for which the loan was given. As to how loans were used or utilized, 47.6 percent of the clients used it to expand their businesses, 23. 3 percent used loans to acquire personal assets while 23.9 percent and 3.7 percent used their loan to pay children school fees and settle debts respectively (see Figure 4).

	Difficulties in paying loans		Total
Loan use	Yes	No	
Acquire personal assets	14 (14.8%)	81 (85.2%)	95
Expand this business	22 (11.4)	173 (88.6%)	194
Pay off debts	5 (63.8)	10 (36.2)	15
Purchase household items	2 (33.3)	4 (66.7)	6
Pay school fees	28 (28.9)	69 (71.1)	97
Total	71 (17.4)	336 (82.6%)	407

Table 2: How respondents use loan? * Difficulties in loan repayment
Source: Field data, 2012

The study assessed whether loans fungibility or using loan for other purposes has implications for loan repayment by cross tabulating loan use and repayment challenges. From Table 2 nearly 83 percent of the microcredit clients who used loans for other purposes have no repayment problems. In the Table, 85.2 percent, 66.7 percent and 71.1 percent of clients who used loan to acquire personal assets, purchase household items or to pay children school fees respectively experienced no loan repayment problems. However, 63.8 percent of the clients who used loan to settle debts were likely to default in loan repayment. According to Hulme (1998) fungibility should be seen as a strategy used by the poor to achieve the greatest level of satisfaction from loans.

Compared to those who used their loans for business only, microcredit clients who claimed to have used part or all of their loans for non-businesses purposes were more likely to experience positive business outcomes. Additionally, clients who used loans for other purposes were more likely to have contributed or increased contributed to the education of their children than those who applied their loans solely to their enterprises. This finding implies that using loans for non-business purposes has a significant and positive effect on the welfare of the microcredit clients.

Although microfinance institutions perceive fungibility as a problem in microcredit, under the livelihoods strategies approach it is viewed as a crucial strategy for the poor. In an environment characterized by seasonal fluctuations in demand for goods and services, exercising the option of how to invest loans made more sense than automatically investing loans in business without regard to the prevailing economic conditions. Abafita (2003) has stated that, demand and use of loan depended on seasonal fluctuations and subsequent changes in demand for goods and services. Wright (1999a:4), argues further that loan borrowers are risk-averse and does not invest their loan into one enterprise. They usually minimize risk, so that if one activity or an enterprise fails, it only has a limited, manageable impact on total household income (Wright 1999a).

Borrowing from other source

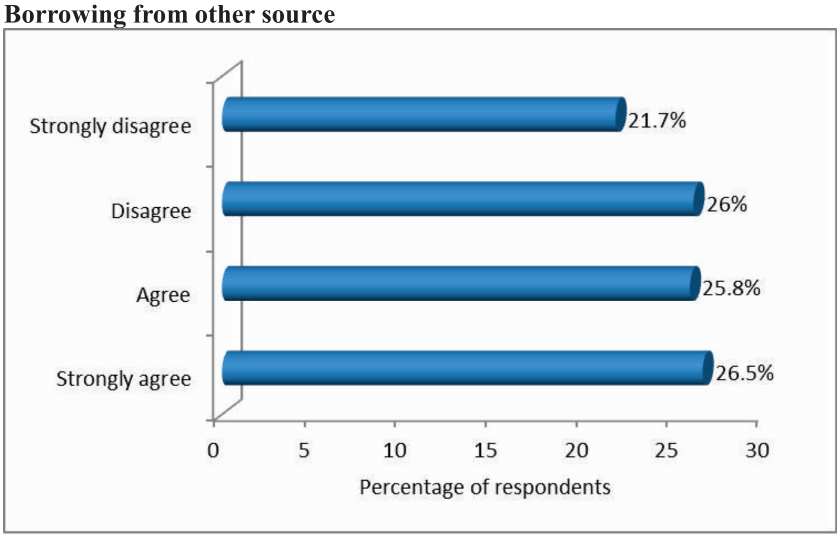

Figure 4; Borrowing from other sources
Source: Field data, 2011

The entrepreneurs relied on diverse sources of finance to start or sustain their businesses. These sources include family support, bank loan and money lenders. In Figure 4, about 57 percent of the clients claimed that they invest borrowed money from other sources in their businesses. The interviews revealed that microcredit clients who were not satisfied with their loan quantum borrowed from other sources for investment. The study observed that clients who borrowed from other sources were more likely to experience positive business outcome. Experiencing positive business outcomes by borrowing from other sources suggests that such clients were more entrepreneurial than their peers and therefore made better use of the loans. It could also be possible that such clients took loans from other sources after their businesses showed improvement. From the two explanations above, it is difficult to tell which occurred first, improvement in business outcomes or borrowing from other sources. This finding needs to be investigated further in subsequent studies.

Interest rate, savings and their implications

The issue of interest rate has always been a contention between the two main microfinance paradigms or approaches to microfinance. While the welfarist approach support the idea of subsidizing microcredit programmes so that they can offer low interest rates (Woller, Dunfield, & Woodworth, 1999; and Morduck, 2005), the self-sustainability approach argues for full cover its costs with its revenues in order to widen the market in a sustainable way (Von Pischke, 1991; Yaron, Benjamin & Piprek, 1997). It is also argued that the costs associated with a tiny loan are proportionally greater than that of a large loan. Consequently, interest rates charged by MFIs have traditionally been very high compared to the levels offered by the orthodox banks.

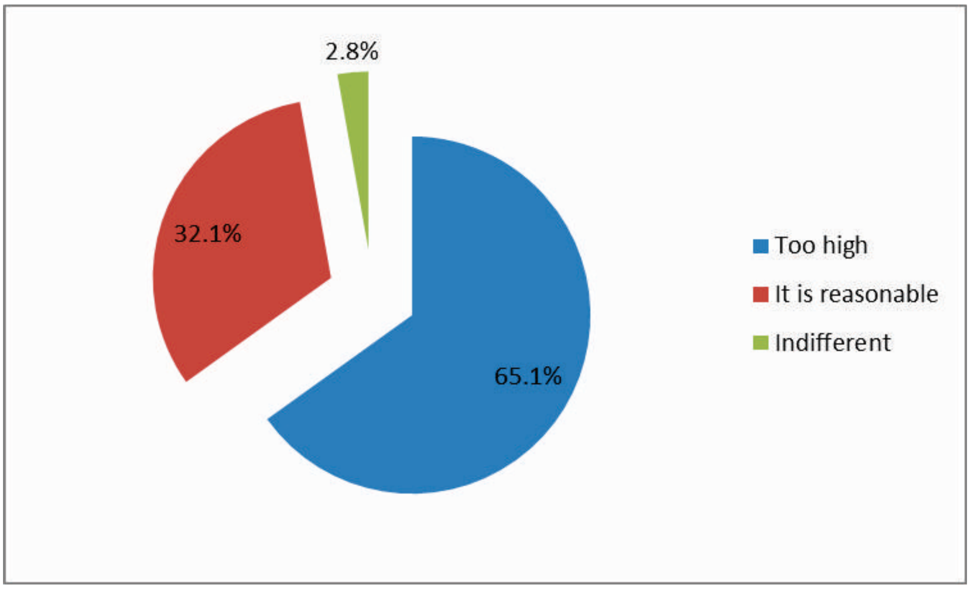

Figure 5: Respondents perceptions of the interest on their loans
Source: Field data, 2011

The UMKRB applies a flat interest rate of 34 percent to every loan amount (including 1 percent insurance or risk management levy). Asked how the perceived the interest they paid on their loans, 65.1 percent of the microcredit clients perceived the interest as too high, 2.8 percent were indifferent about the interest rate while 32.1% claimed to be satisfied with the interest rate as shown in Figure 5.

The obvious questions are: What can be done to lower the high rates to reasonably sounding levels? What are the effects of those high levels and of a more reduced level? As explained above, the main purpose of microfinance has been to reduce poverty levels and in this process the institution operate on two main premises – a social mission and a financial mission. It is important to understand that microfinance is a business and not a handout; therefore it must operate to be profitable at best and sustainable at the least. In countries where MFIs charge high interest rates it has been shown that they have been able to both expand their operations and outreach to the poor and under-served. In 2009, the Micro-Banking Bulletin reports that globally, interest rate charged by microfinance institutions accounted for 89 percent of all revenue from loan portfolio. The perception is that the demand for loans do not change much when interest rates increase and that microfinance institutions can raise interest rates without losing clients (CGAP, 2003; Dehejia, Montgomery & Morduch, 2005; DFID, 2006).

According to the Consultative Group to Assist the Poorest (CGAP), 2004 and Fernando, 2006) if interest rates increase but repayment rates and demand for microcredit services do not decline, then it is an indication that businesses are being improved and poverty is on the decline. In other words, repayment rates and demand for microcredit services can be used to measure the affordability of interest rates. The concern with the use of such proxies is that in rural areas for example, with little competition among microfinance institutions and where demand for microcredit overwhelmingly outstrips supply, microfinance institutions can increase interest rates without any noticeable reduction in the number of borrowers. It is however important to understand that increasing interest rates may lead to the erosion of business profits thereby undermining microcredit programme's objective of improving business activities and poverty reduction among the poor.

A response by several politically motivated governments in addressing the high rates of interest charged by some microfinance institutions is by imposing a ceiling on the interest rate levels where those rates are revealed as either intrinsically unjust or potentially harmful. GHAMFIN in collaboration with the governments can design laws and regulations to constrain microfinance institution activities and protect clients against potential extortive interest rates. It can be concluded that since rural economies are characterized by poor markets infrastructures and seasonal fluctuation in economic activities high interest on micro-loans will contributed to immense repayment pressure and high drop-out rate. When this happens, the basic tenets of the microfinance movement will be defeated. What can be done is to ensure that interest rates are not fixed beyond sustainable operating levels.

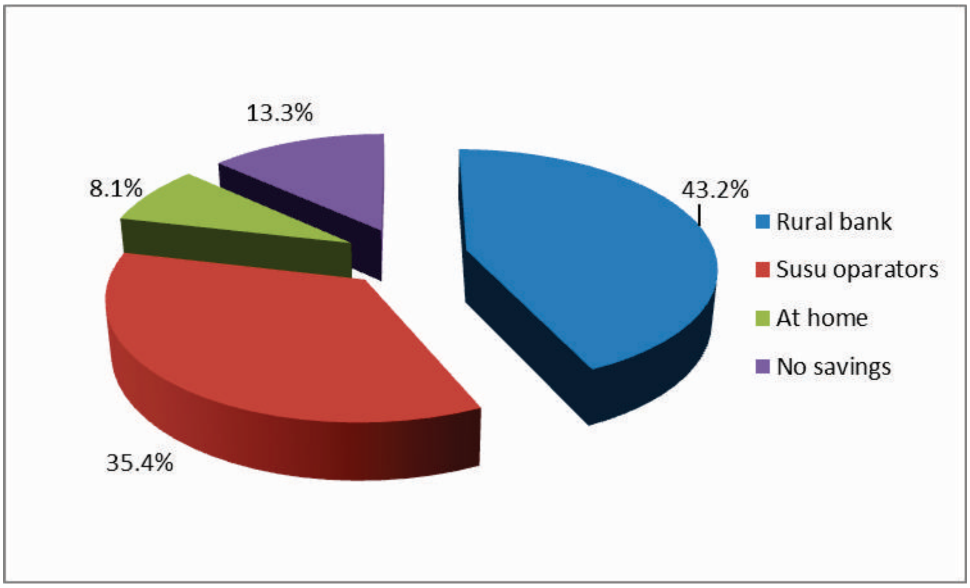

Figure 6: respondents place of savings
Source: Field data, 2011

Savings

The study assessed the savings habit of the microcredit clients and observed that, nearly 88 percent of the microcredit clients saved part of the profits from their proceeds. Of those who saved, 43.2 percent saved with the Rural Bank, 35.4 percent saved with 'susu' operators and 8.1 percent saved at home (see Figure 6). Those who did not save (13.3 percent) gave small profit and family obligations as the reasons why they could not save. The interviews revealed that clients who claimed to save with the rural bank were referring to the voluntary and compulsory savings they made and not savings they made from their profits. They were however, able to accumulate this savings which allowed them access bigger loans to offset loan repayment in times of challenges. Accumulated savings could also be used in times of shock, such as death of a family member or for other emergencies. The clients were generally satisfied with of the savings they made as it increases their financial assets.

The importance of savings to the poor began to emerge during the early 1980s when empirical evidence exploded the idea that the poor could save and takes advantage of saving facilities. It is now known that the poor have to, can and do save and even pay others to take their money for safe-keeping in schemes such as the "susu" (Rutherford, 2000). This study found that 86.7% the microcredit clients save to accumulate large lump sums for what Rutherford (2000) categorizes into lifecycle events, emergency needs and investment opportunities.

Regarding lifecycle events, the poor require lump sums of money for events such as childbirth, marriage, education and festival celebration which can be very costly. Second, the poor save for emergencies (personal and impersonal) which could result in the unanticipated need for large sums of money. Personal emergencies include sickness, death and unemployment while impersonal emergencies consist of shocks such as theft, famine, and floods. Thirdly and finally, poor households save to accumulate large sums of money for investment opportunities such as purchase of land, housing material and other long term assets.

Savings facilities are evidently very important for the poor and this is reflected in a study in Uganda where 57 percent of respondents claimed that a secure and convenient place to save was more important than the ability to acquire loans (Abraham, Ronald, Felipe, and Pomeranz, 2011; Deshpande, Pickens, & Messan, 2006). This study found that many of the microcredit clients used their accumulated savings to access bigger loans which enabled them to acquire land for building, commercial vehicles and fishing vessels in the form of outboard motors.

Conclusion

This paper assessed the contribution of the UMKRB's microcredit programme to livelihood strategies and livelihood outcomes of its clients and concludes that microcredit can be an effective strategy for creating wealth and to expand the rural economy of Ghana. Doing so requires pragmatic and holistic approach to address the few challenges that this paper has identified. The study found that low educational background was a hindrance to basic skill knowledge acquisition and adoption, innovation, competitiveness and growth in the small business sector. However, the paper has clearly demonstrated that microcredit has contributed fairly in increasing the welfare of microcredit clients. This has led to an increase in their financial, social, physical and human capital assets. To further improve on their living standards, growth-oriented enterprises require much bigger loans to enhance their activities. The issue of high interest rate and unnecessary institutional charges was identified as a challenge to the microcredit clients as these does not promote enterprise expansion, profitability and poverty reduction among poor people. It is therefore recommended to the management of the UPKRB to reduce the interest on micro-loans and also consider discouraging the deduction of risk management fees from loans granted to microcredit clients given that members work in jointly liable groups to access loans.

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