Business Strategy and Sustainability of Microfinance Institutions in Ghana

K. Aveh, R.Y. Krah, and P. Dadzie
Faculty of Accounting and Finance, University of Professional Studies, Accra.
P.O. Box LG 149, Legon, Accra, Ghana.
Email: kwameaveh8@hotmail.com

ABSTRACT

The relationship between business strategies and sustainability of microfinance institutions was investigated. The research was based on both qualitative and quantitative approaches. First a qualitative interview was conducted by interviewing 14 executives of sampled microfinance institutions with a focus on the business strategies they employ to keep them viable vis a vis the factors; effective screening mechanisms, enforcing group collateral, regular clients' meetings, minimization of default rates, intensification of peer monitoring and financial product innovation. This was followed by a self-administered survey involving 130 MFIs. The study revealed all the six factors were significant to the sustainability of MFIs in Ghana.

1.0 Introduction

Ledgerwood and White (2006) state that any organization, particularly one contemplating a significant strategic change, needs a road map for its future. This road map allows decisions to be made regarding the allocation of resources and quantifies the likely results of actions, helping institutional leaders set realistic goals and make decisions. They further posit that this road map will provide staff, management, board members and external stakeholders with a documented description of not only what the institution looks like today, but more importantly, the institution's vision of what it hopes to accomplish in the future.

Microfinance Institutions(MFI's) are pivotal as far as credit for development is concerned. However, the critical issue which has assumed important dimension in academic and policy circles is the sustainability of microfinance institutions. What strategies should be adopted by managers of these institutions having full regard to their circumstances? Should the same strategies be adopted for different geographical settings? How proactive should a manager be in formulating strategies in the face of changing market conditions? This is important to the development of financial intermediation at the micro level. The main issue has to do with the critical business strategies that managers of microfinance institutions adopt to ensure that they are sustainable. The sustainability of microfinance therefore hinges on an effective management of various business strategies adopted at different times in the life of an MFI.

To be successful in microfinance, it is important to adopt strategies and innovations that will ensure longevity and profitability. Microfinance presents a series of exciting possibilities for extending markets, reducing poverty and fostering social change. Many of the insights from the microfinance experience can be examined fruitfully through strategic factors such as effective screening mechanisms, enforcing group collateral, regular clients' meetings, minimization of default rates, intensification of peer monitoring and financial product innovation.

1.1 Objectives of the Study

The main objective of the study is to examine the extent to which business strategy as performance factor affects sustainability of Microfinance institutions in Ghana. This study seeks to analyze certain business strategies adopted by the MFIs and how they impact on their sustainability. Smallbone (1993) posits that there is no single type of strategy which is associated with business growth. This study therefore focused on certain management actions taken to influence business growth and sustainability in microfinance industry.

2.0 Literature Review

2.1 Effective Screening

Armendariz de Aghion and Morduch (2005) state that agency problems such as adverse selection and moral hazard are the issues that arise due to ineffective screening of clients. Prior to extending a loan to a client, the lender may have little if any reliable information about the quality of the borrower. Sometimes a bit of quick scouting around by a loan officer can yield the required information but too often the necessary background research on borrowers is prohibitively costly. Better information can prevent the lender from mistakenly extending a loan to a "low quality" borrower. Moral hazard in lending refers to situations where lenders cannot observe either the effort or action taken by the borrower or the realization of project returns. Here, because the lender has no way of knowing the trading outcomes of borrowed money, it is tempting for a borrower to claim that business had gone bad and default in repayments. Sometimes the borrower may decide to "take the money and run" once project returns are realized or simply migrate and change identity.

2.2 Group Collateral

Group lending refers specifically to arrangements by individuals without collateral who get together and form groups with the aim of obtaining loans from a lender. The special feature is that the loans are made available individually to group members, but all in the group face consequences if any member runs into serious repayment difficulties (Armendariz de Aghion and Morduch, 2005). In the Grameen Bank case, the groups are made up of five people. In the BancoSol case, groups can be as small as three people while FINCA in Costa Rica groups can range from ten to fifty women. As long as the loans are being repaid, the cycle of lending continues. According to Fugelsang and Chandler (1993), if one member defaults and fellow group members do not pay off the debt, all in the group are denied subsequent loans. This feature gives customers important incentives to repay promptly, to monitor their neighbours and to select responsible partners when forming groups. The mechanisms rely on informal relationships between neighbours that facilitate borrowing for households lacking collateral. The programme sometimes called "joint liability" combines the scale advantages of a standard bank with mechanisms long used in traditional modes of informal finance (Besley and Coate, 1995; Armendariz de Aghion, 1999).

2.3 Regular Client Meetings

Armendariz de Aghion and Morduch, (2005) state that regular meeting with clients creates an early warning system. By meeting weekly, credit officers get to know their clients well by seeing them face-to-face on a regular basis. This information can provide loan officers with early warnings about emerging problems and offer the lenders a protocol by which to get to know borrowers more effectively and clamp down more quickly when needed. Personalized relationships and regular opportunities for monitoring are thereby established. Drawing on their research, Bolivia, Gonzalez-Vega et al. (1997,74) stress the value of the early warning sign feature, asserting that "the most important tool for the monitoring of borrowers in these lending methodologies is requiring frequent repayments followed by immediate reaction in the case of arrears."

2.4 Minimizing Default Rates

Propositions to help overcome this problem are varied and extensive. Hoff and Stiglitz (1990) outlined two mechanisms: the direct and indirect. With regard to the indirect mechanism they argue that lenders should design their loan contracts such that they can extract enough information on their clients and their businesses. The loan contract should also factor in the interest rate to be charged on the loans as high interest rates will impact negatively on repayments. Hoff and Stiglitz (1990) further add that the threat of freezing credit is another alternative in the indirect mechanism. For the direct mechanism, resources are employed by lenders to screen applicants and enforce loan repayments. Methods regarding the use of collateral such as land in the case of developing countries are also far advanced.

2.5 Peer Monitoring

According to Armendariz de Aghion and Morduch, 2005, Banerjee, Besley and Guinnane (1994), inspired by Raiffeisen's cooperative experience, developed a model that emphasizes peer monitoring among members. This model explains why a borrower's peers have incentives to monitor and enforce contracts which are now heavily applied to group lending in microfinance. Here a group of people with a common identity and need and who probably live, farm or trade within the same locality come together to access loan. The loan is given under the assumption that their common identity makes them a 'safe' group and therefore they will not default in repayment of the loan. There is also the undertaking that members would make good any default by a member which implies regular peer monitoring for signs of a possible default by any member.

2.6 Financial Product Innovation

According to Zeller and Meyer (2002), striving for financial sustainability forces microfinance institutions to be sensitive to client demand and induces them to improve products, operations and outreach. Better financial products in turn generate greater economic benefits for clients and thus greater impact.

3.0 Methodology

3.1 Research design

The research was based on both the qualitative and quantitative approaches. A two stage approach was used. First, an exploratory was carried out by interviewing 14 executives of sampled microfinance institutions with focus on how institutional characteristics impact on performance MFIs. The purpose is to explore the microfinance environment and also to obtain detail understanding of the issues under investigation. The preliminary interview allows the interview the opportunity to freely response to the issues and in many cases produces unsolicited but important information that helps to shape and reshape the study. The preliminary interview assisted in the development of survey questionnaires for the second stage of the study. The resulting questionnaires were self-administered to the 130 microfinance institutions selected.

3.2 Sample Selection

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. These regions were chosen because they have the highest number of MFIs operating.

*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 business strategies that affect sustainability of MFIs, it was determined that the most appropriate sampling method to utilize was a 'two phased' stratified random sampling technique (Churchill, 2000). The stratum development began by assessing the regional distribution. From there the microfinance institutions located in the regions were determined. The next stage involved the aggregation of coverage by examining the regions with the high number of MFIs. The selection of Greater Accra, Central, Western, Eastern, Ashanti, Northern and Volta regions gave 130 MFIs, representing 74.4%. Limiting the coverage to all except Upper East, Upper West and Brong Ahafo was equally influenced by time. 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 less developed countries (LDCs), it was therefore considered prudent to have larger sample size to ensure that adequate number of responses is obtained for effective analysis***.*** *The composition of the selected sample is shown in Table 1.*

3.3 Data Collection Method and Analysis

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. The data was edited and coded for analysis. The hypothesis was tested using Chi-square.

Table 1: Composition of Sample

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

4.0 RESULTS AND DISCUSSIONS

4.1 Screening Mechanisms used by MFI

In response to the question as to whether the MFIs have any screening mechanisms in place, 92.1% answered in the positive whilst 9 (7.9%) answered in the negative. Those who did not have any structured or formal screening mechanisms in place were mostly the Susu operators, the credit unions and a few FNGOs. They gave various reasons. Regarding the Susu operators they contended that the clients were mostly market women who were known by their peers and they also reside within the same community and therefore there was no need for any form of rigid screening. The credit unions gave reasons to the effect that the clients were mostly members of staff in a particular organization and were known. Again, in the event of default or the client disappearing, they can fall on their end of service benefits. The results in Table 2 show the various screening mechanisms used by the majority of the MFIs.

Table 2: Screening Mechanism used by MFIs

Type of Screening Mechanism	Frequency	Percent
Background check	68	60.0
Business inspection	23	20.0
Interview/Verification	23	20.0
Total	114	100.0

It can be observed that a background check (60.0%) was the main screening mechanisms used by the MFIs. When asked whether the screening mechanism differed from sector to sector, 91.7% answered in the affirmative as against 8.3% who stated otherwise. Those who had sector-specific screening mechanisms explained that it was so because their activities vary from sector to sector. During the exploratory research, one Chief Executive had this to say:

> We have a stringent form of screening. We use our epicenters and the loan committees to weed out those we perceive as not credit worthy. And because we deal with all kinds of people who do different kinds of work, we are careful how we apply the screening mechanism. But generally it is about the same with slight modifications depending on the person, the work he or she does and the peculiar circumstance.

Another Chief Executive had this to say:

> We check your (client) family background, where you live and what you do for a living before we disburse loan.

4.2 Collateral

Another important strategy in microfinance business is the demand of commensurate collateral to back lending to clients. We therefore asked the respondents whether they demand collateral for their lending and the nature of the collateral demanded and the response is registered in Table 3. The result shows that all the MFIs use one form of collateral or the other. Group collateral is the most common type of collateral used by MFIs as 73.2% of the MFIs sample confirmed using it.

Table 3: Nature of collateral

Nature of collateral	Frequency	Percent
Cash balance in account	16	13.2
Compulsory savings/deposit mobilization	11	10.1
Physical asset	4	3.5
Group guarantee	83	73.2
Total	**114**	**100.0**

On the other hand, the few (26.8%) who indicated that they did not use group as collateral stated that property and staff recognition rather than group membership was used as collateral for lending. The FNGOs mostly used group guarantee as collateral, so that in the event that a member of a group defaults the remaining group members will be asked to pay the defaulted amount on behalf of the member. They sometimes demand a guarantor. One Chief Executive had this to say during the exploratory research:

> ‘’We use the group liability concept mostly in the farming areas. But for the individual we also ask for someone to guarantee for you. Someone known to us already’’

The Savings and Loans institutions use compulsory savings and deposits while the rural banks used the cash balance in the account of the client as a guarantee. The Susu organizations sometimes demand physical assets as collateral before loans are disbursed to clients.

4.3 Meetings with clients

The strategy to meet with client on regular basis is a key aspect of microfinance business and the extent to which this strategy is implemented may influence the sustainability of the MFI. All the MFIs described their level of interaction with the group clients as frequent and also affirmed that they were very much involved in group activities. They unanimously affirmed that they had regular meetings with their clients. The respondents were then asked how often they had meetings with their clients and the results in Table 4 were obtained.

Table 4: Meeting with clients

Frequency of meeting with clients	Frequency	Percent
1 month	9	8.0
2 Week (fortnightly)	14	12.0
1 Week (weekly)	91	80.0
Total	**114**	**100.0**

It can be observed that 80% of the MFI's met their clients weekly, 12.0% met them fortnightly whilst a further 8.0% also met monthly. Thus, the majority of the MFI's met with their clients frequently. The MFI's indicated that they spent between 10 minutes to 30 minutes or average of 20 minutes during their meetings with clients. Most of them explained that they did not take much of the time of the clients so as to allow them to go back to their places of work especially the traders and the farmers. Even with the salaried office workers, the MFIs stated that they did not spend too much time with them so as not to take their office hours.
This is what one Chief Executive said during the exploratory survey:

> Our clients are mostly traders and farmers who have very little at their disposal. You see they also not too interested in long speeches as they see that waste of precious hours when they could be doing something productive to be able to pay back the loan they have taken. I will tell you of an experience we had at one of our centres. When we started there the attendance at our regular meetings was almost always 100%. With the passage of time the attendance started dropping. Some will not come but will send their regular cash repayments through the few who will come. When we investigated the gradual reduction in meeting attendances, they did not hesitate to tell us the meetings took too much of their time. When we agreed to limit the regular meetings to 20 minutes every two weeks the numbers increased again. You see they are not interested in long speeches.

4.4 Purposeful use of loan and monitoring

On how the MFI's ensure that clients use credit facilities for the purposes for which the loans were acquired the respondents mentioned that through discussions and report on activities, they were able to ensure adherence to the purposeful use of credit facilities by clients. Also by providing training for the client and regular field monitoring, the MFI's were able to ensure that borrowers used credit for purposes for which the loans were granted.

When the respondents were asked whether they were personally involved in monitoring clients, 40% answered in the affirmative and explained that the purpose of the personal monitoring of clients was to ensure repayment. Thus, 60% of the respondents were not directly involved in monitoring of clients; this was perhaps because the majority was top Executives of the MFIs sampled.

4.5 Dealing with loan repayment and defaulters

Responding to the question on how the MFI's ensure that default rates were kept to the barest minimum, the respondents stated among others, constant monitoring of payments, encouraging clients to save and through constant reminders. Also, some MFI's conduct market research, undertake frequent client appraisals, group trainings and monitoring of clients, use group collateral, enforcement of loan repayment schedules and prosecution of willful defaulters in an attempt to reduce default rates to the barest. Thus, the MFI's use diverse and multi-faceted techniques in ensuring low default rates.

When asked whether their approaches to ensuring low default rates differed from sector to sector, only 21.4% answered in the affirmative. Thus, the majority (78.6%) of the MFI's indicated that they adopted the same strategies in minimizing default rates across sectors. Also, 84.6% as against 15.4% of the MFI's indicated that they employed the same strategies in minimizing default rates across sectors. Also, 84.6% as against 15.4% of the MFI's indicated that they employed the same default rates minimization strategies in all other communities in which they operated. This was so because, the communities were culturally the same, had similar economic activities, situations were similar and operating rules were standardized and aimed towards the same purpose. In effect, these required that the MFI's employed the same default rate minimization strategies across sectors and also across communities.

When asked whether their default minimization strategies were informed by past experiences, 90.9% answered in the affirmative whilst 9.1% stated otherwise. Thus, the majority of the MFI's affirmed that their choice of default rates minimization strategies which is employed across sectors and communities were significantly influenced by their past experiences.The respondents explained that from past experiences such as the belief by loan beneficiaries that the loans were from Government, delays in court actions with its attendant expenses as well as the intelligence gathered from the pilot programs they undertook, all informed their decisions to adopt the above strategies in order to minimize default rates.

The respondents were quick to add that the default minimization strategies have so far been somewhat effective in improving loan repayments. According to them, what has worked most is the increased interaction with clients through group meetings where the clients are given the opportunity to enumerate their challenges so that appropriate repayment methods are fashioned out for them. This presupposes that micro financing requires very high individualized attention to clients in order to enhance the purposeful utilization, management and repayment of the loans.

To ascertain the effectiveness of group collateral in enhancing loan repayments, the MFI's were asked how much role do groups play in enforcing repayments. In response, 62.5% stated average, whilst 37.5% stated very high. Thus, the MFI's opined that the use of groups was highly effective in enforcing loan repayments.

Service providers adopt various strategies to enhance repeat-purchase by clients. All the world over, financial institutions always use level of risk and creditworthiness. In micro-financing, one strategy that is often used to increase loan disbursement is good repayment record. In line with this the MFI's were asked whether they do increase loan amount disbursed to a client who has a good repayment record. In response, the majority (78.9%) of the MFI's affirmed that increases in loans disbursed to client over time depended on good repayment track record. On the other hand, only 21.1% of the MFI's stated that increases in loan disbursements were not tied to good repayment track record.

The results in Table 5 show the mechanisms by which the MFI's deal with loan defaulters in case there is one.

Table 5: Dealing with defaulters

Mechanisms for handling defaulters	**Frequency**	**Percent**
By legal means	8	7.0
Report to law enforcement agencies	20	17.6
Group pays on behalf of defaulter	73	64.0
Persistent warning letter/notices	3	2.6
Group compels defaulter to pay	10	8.8
Report defaulters to chiefs	-	-
Total	**114**	**100.0**

It can be observed that for group collaterals, either the group compels the defaulter to pay (8.8%) or the group pays on behalf of the defaulter (64.0%). Aside group enforcement, legal actions (7.0%), or persistent warning letters/notices (2.6%) were also a means of handling defaulters. Thus, generally, the MFI's employed diverse methods in handling default cases but the major means of handling defaulters is by group enforcements. This indicates that the MFI's mostly dealt with group clients rather than individuals in order to safeguard the loans or enhance repayments.

When the MFI's were asked whether the mechanism for handling defaulters was group/sector/or borrower specific, only 25% answered in the affirmative. They explained that usually clients that engage in the same activity form a group and this helps in managing the clients and their economic activities in terms of accessibility to clients by location. In worst cases, group members contribute to pay and replace clients. On the other hand, the majority (75.0%) of the MFI's indicated that the mechanism for handling defaulters was not group sector or borrower specific. This was so because the environments differ in terms of business operations and members of various activities can belong to one group. But in all cases, the mechanism for handling defaulters depended largely on the amount of money involved or requested for by the client. Thus, the mechanism for dealing with defaulters was more dependent on the amount than the group, sector or the borrower. One Chief Executive put it this way:

> Depending on the amount, we chase them and keep modifying our collection strategy till we retrieve the amount.

On the difficulties the MFI's face in ensuring repayment, varied responses were obtained. These included lack of proper education, irregular checks of defaulters on the part of the MFI's. Responding to the question as to whether the groups were involved in dealing with defaulters who were members, an overwhelming 90.9% of the MFI's answered in the affirmative. They explained that the groups assisted loan officers to trace defaulters, and even undertake follow-ups to threaten the member or appeal and prevail on defaulters to repay their loans. In the worst scenarios, since the group acts as collateral, group members contribute and pay the outstanding balances of their member who defaults in repayment. Sometimes the group uses threats of arrest of defaulters as a means of enforcing repayments. On the other hand only few (9.1%) of the MFI's indicated that groups were not involved in dealing with defaulters who were members because it was normal if an individual defaults. Perhaps, because some clients perceive the facility as a solidarity loan, it was difficult in some cases to hold the group responsible. Legal action becomes the only option to compel the individual and not the group to pay outstanding balances.

On how groups ensure that peer monitoring succeeds, the MFI's explain that the effectiveness of groups in client monitoring included constant reminders, regular meetings/interaction, monitoring by group executives and at worst dismissal from the group, all of which enhances the success of peer monitoring of clients.

4.6 Financial Products

An MFI may use the variety of products offered to its client as a sustainability strategy. The study therefore investigated the product mixed of the MFIs and the result is shown in Table 6. From Table 6, it can be observed that the MFI's had between 1-7 financial products an average of 2 products but the majority (77.2%) of the MFI's had two (2) financial products and only 2.6% had as many as seven (7) products. These products included trading loans, agro processing loan, current account savings and loans, workers credit, business input credit insurance, among others. The product duration range between 1 month, 3 months, 6 months, 12 months, 24 months, and 36 months. Thus, the MFI's had diversified financial products of varying durations, with some specifically tailored for men and women.

Table 6: Number of financial products of the MFI's

Number of products	Frequency	Percent
1 product	2	**1.8**
2 products	88	**77.2**
3 products	8	**7.0**
4 products	11	**9.6**
5 products	2	**1.8**
7 products	3	**2.6**
Total	**114**	**100.0**

During our exploratory research, one Chief Executive stated:

> We have two (2) products. We have the SPIA (Strategic Planning in Action) for men. We also have AWFI (African Woman Food Farmer Initiative) for women farmers.

The products with longer credit period were designed for mostly farmers depending on how long the crop takes to grow and harvested. The product for the traders were mostly of shorter durations due to the buy and sell nature of their activity. A feature of the traders' credit was the insistence on regular short payment intervals such as daily or weekly or monthly repayments.

4.7 Hypotheses Testing

This section looks at the test results of the hypotheses that assess the impact of business strategy on the sustainability of the MFIs. This section provides answers to the research question as to what kind of business strategies adopted has a significant impact on sustainability of MFIs. The main hypotheses are:

H_1: *If screening mechanisms are made more effective, it will lead to a significant increase in sustainability of MFIs.*
H_2: *If group collateral is highly enforced, then sustainability of MFI is increased.*
H_3: *If clients' meetings are highly enforced, then sustainability of MFIs will significantly increase.*
H_4: *If Executives intensify their handling of defaulters then sustainability will increase.*
H_5: *If Executives ensure that peer monitoring is intensified, then sustainability will also increase.*
H_6: *If innovations in financial products increase, then sustainability of MFIs will increase.*

4.8 Screening mechanisms and sustainability of MFI

The results in Table 7 show the relationship between the availability of an effective screening mechanism and sustainability of MFIs. It can be observed that the majority (93.0 %) of the MFIs who had an effective screening mechanism were perceived to be sustainable. Only few (7.0 %) MFIs did not have an effective screening mechanism and were perceived as not sustainable.

Table 7: Screening mechanisms

Availability of screening mechanism	**Sustainability of MFI**		**Total**
	Yes	**No**	
Yes	106(100%)	-	**106 (93.0%)**
No	-	8(100%)	**8 (7.0%)**
Total	**106(100%)**	**8(100%)**	**114 (100%)**

The test results yielded X^2=21.13, df=1, p<0.015; which show a significant relationship between availability of an effective screening mechanism and sustainability of MFIs. Therefore, at the 95% significance level, the hypothesis that if screening mechanisms are made more effective, it will lead to a significant increase in sustainability of MFIs was supported. This result supports the position of Stiglitz and Weiss (1981) who advocate the screening out of "bad" clients before loans are disbursed so that people who are likely to default in repayment of loans are weeded out.

4.9 Group collateral and sustainability of MFI

One way by which MFIs avoid high default rates is the use of group collateral where loans are made available to individuals in a group but the group faces the consequences if any member defaults in repayment. This has been found to be effective in minimizing default rates. The question therefore is, to what extent does group collateral impact on the performance of MFIs. In line with this it was hypothesized that "if group collateral is highly enforced, then sustainability of MFI is increased".

Table 8: Use of group collateral and sustainability of MFI

Use of group collateral	**Sustainability of MFI**		**Total**
	Yes	**No**	
Yes	83 (100%)	-	**83(72.8%)**
No	-	31(100%)	**31(27.2%)**
Total	**83(100%)**	**31(100%)**	**114(100%)**

Table 8 showed that the majority 83 (72.8%) of the MFIs who used group collateral were perceived as sustainable whilst among those who did not use group collateral, 27.2 % were perceived as not sustainable. The test results revealed a significant (X^2= 29.33 , df=1, p<0.010) relationship between use of group collateral and sustainability. This means sustainability was dependent on use of group collateral. Therefore at 95% significant level, the hypothesis that if group collateral is highly enforced, then sustainability of MFI is increased was supported.

4.10 Clients' meetings and sustainability of MFI

Regular meetings between MFIs and their clients, helps the credit officers of the MFIs to know their clients very well through the regular face-to-face interactions. This platform provides loan officers with cues about emerging problems from the attitudes and behaviour of the clients. Frequent meeting with clients in effect provides avenue for personalized relationships for the credit officers for effective monitoring. In line with this it was hypothesized that: "if clients' meetings are highly enforced, then sustainability of MFIs will significantly increase".

Table 9: Clients meetings

Frequent meeting with clients'	**Sustainability of MFI**		**Total**
	Yes	**No**	
Yes **No**	114(100%) -	- -	114(100%) -
Total	**114(100%)**	**-**	**114(100%)**

The results on the relationship between clients meeting and sustainability of MFIs revealed that, sustainability was significantly dependent on a highly enforced clients meetings (X^2=21.33 , df= 1 and p<0.013). Thus, all the MFIs who met frequently with clients were perceived as more sustainable than those MFIs who did not enforce high clients meetings. Therefore at the 95% significance level, the hypothesis that if clients' meetings are highly enforced, then sustainability of MFIs will significantly increase was supported.

4.11 Intensive handling of defaulters and sustainability of MFI

In case clients default, the MFIs adopt various measures to handle the defaulters such as holding the group responsible for the payment, persistent reminders and persuasions and even court actions. The question that remains is whether an intensive pursuit of the defaulters impact on the sustainability of the MFIs. In line with this it was hypothesized that: "if MFIs intensify their handling of defaulters then sustainability will increase".

Table 10: Handling defaulters

Intensive handling of defaulters	**Sustainability of MFI**		**Total**
	Yes	**No**	
Yes **No**	111(100%) -	- 3(100%)	**111 (97.4%)** **3 (2.6%)**
Total	111(100%)	3(100%)	**114 (100%)**

The results in Table 10 show the relationship between MFIs intensive handling of defaulters and sustainability. It can be observed that whilst the majority (97.4%) of the MFIs who intensify their handling of defaulters were perceived to be sustainable, among those who did not vigorously pursue their defaulters, 2.6% were perceived as not sustainable. In other words, sustainability was found to be significantly dependent on intensive pursuit of defaulters (X^2=21.12, df=1 and p>0.013). Therefore at the 95% significance level, the hypothesis if MFIs intensify their handling of defaulters then sustainability will increase was supported.

4.12 Peer monitoring intensity and sustainability of MFI

With group collateral at the bargain front of the lending business of MFIs, peer monitoring becomes unavoidable since no member would like to be responsible for any members' act of omission. And since group members usually share common characteristics; or are engaged in similar activities; or stay within a distance of one another, one may posit that an intensive peer monitoring will enhance the sustenance of MFIs. Consequently, it was hypothesized that: "if MFIs pursue an intensive peer monitoring system, then sustainability will increase".

Table 11 : Intensifying Peer monitoring

Peer monitoring	**Sustainability of MFI**		**Total**
	Yes	**No**	
Yes **No**	83 (100%) -	- -	**83(100%)** **-**
Total	83(100%)	83 (100%)	**83 (100%)**

The assertion that if MFIs pursue an intensive peer monitoring system, then sustainability will increase was found to be true. From the data in Table 10, a significant relationship was recorded between intensive peer monitoring by the MFIs and sustainability. Thus the majority (100%) of the MFIs who pursued an intensive peer monitoring were perceived as sustainable (X^2=20.12, df=1 and p>0.015). Therefore at the 95% significance level, the hypothesis that if MFIs pursue an intensive peer monitoring system, then sustainability will increase was supported.

4.13 Innovations in financial products and sustainability of MFI

The results in Table 12 revealed that those MFIs who were innovative in their financial products were considered sustainable (86.8%). Conversely, those MFIs who were not innovative in their financial product developments were not considered sustainable (13.2%). The relationship between innovations in financial product development and sustainability was found to be significant (X^2=24.05, df=1 and p<0.001).

Table 12: Product innovations

Innovations in financial products	**Sustainability of MFI**		**Total**
	Yes	**No**	
Yes **No**	99(100%) -	- 15(100%)	**99(86.8%)** **15(13.2%)**
Total	**99(100%)**	**15(100%)**	**114(100%)**

Thus, there was enough evidence at the 95% significance level to suggest that the sustainability of the MFIs was dependent on increased financial products innovations. Hence the hypothesis that, if innovations in financial products increase then sustainability of MFIs will also increase was supported.

5.0 Conclusion and Policy Implications

The study result provide sufficient evidence that the business strategies adopted by MFIs impact on sustainability. The business strategies that were found to have positive significant impact of on sustainability of MFIs include effective screening, enforcing group collateral, regular clients meetings, high methods of minimizing default rates, intensifying peer monitoring and innovation in financial products. Therefore an MFI that intends to be a going concern and survive common challenges of microfinance business should be seen in embracing these strategies firmly and proactively.

The combination of effective screening, enforcement of group collateral, regular clients meeting intensified peer monitoring will all culminate into high methods of minimizing default rates. According to Adjei, J.K., (2010), growth in new products and services and in the use of technology will characterize the microfinance industry soon. Credit cards, smart cards and mobile phones are already being used by players in the industry. Technology could be used to add point-of-sale systems, to make the administrative work of the loan officers more efficient, to transfer information and to lower costs of operations as well as interest on loans and other charges borne by poor clients.

REFERENCES

Adjei, J.K., (2010). *Microfinance and Poverty Reduction. The Experience of Ghana.* Bold Comunications Limited, Accra-Ghana.

Armendariz de Aghion, B., Morduch, J. (2005). *The Economics of Microfinance.* Massachusetts Institute of Technology, MIT, Cambridge

Banerjee, A., Besley, T., Guinnane, T. (1994) .Thy Neighbour's Keeper: The Design of a Credit Cooperative with Theory and a Test. *Quarterly Journal of Economics* 109 (2) 491-515.

Basu, S. (1997). Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of Indian Rural Credit Market. *World Development*, 25(2) 267-280.

Bell, C. (1990). Interactions between Institutional and Informal Credit Agencies in Rural India. *The World Bank Economic Review*, 4 (3) 297-327.

Besley, T.(1994). How do Market Failures Justify Interventions in Rural Credit Markets? The World Bank Research Observer, 9(1) 27-47

Besley,. T., Coate, S. (1995). Group Lending, Repayment Incentives, and Social Collateral. Journal of Development Economics, Vol. 46, No. 1.

Berger, et. al. (1999) Sustainability vs. Outreach in Microfinance. Sustainable Development Department, the Inter-American Development.

Fugesland, A. Chandler, D. (1993). Participation as a Process-What We Can Learn from Grameen Bank, Bangladesh, rev. ed. Dhaka: Grameen Trust.

Gonzalez-Vega et. al. (1997) An Ohio state primer on microfinance in Bolivia. Manuscript, Rural Finance Program. Department of Agricultural Economics. The Ohio State University.

Hoff, K., Stiglitz, J. E. (1990). Imperfect information and Rural Credit Markets-Puzzles and Policy Perspectives. The World Bank Economic Review, 4(3), 235-250.

Ledgerwood, J., White, V. (2006) Transforming Microfinance institutions: Providing full Financial services to the poor. The World Bank, 1818 H Street NW, Washington, DC 20433, USA

Smallbone, D., Walter, F. (2001). The Distinctiveness of Entrepreneurship in Transition Economies, Small Business Economics, 16 (4), 249-262

Stiglitz, J, Weiss, A. (1981). Credit markets with imperfect information. American Economic Review 71, 393-410.

Zeller, M., and Meyer, R.L.(2002). The Triangle of Microfinance-Financial Sustainability, Outreach and Impact. John Hopkins University Press, Baltimore and London.

This academic article was published by The International Institute for Science, Technology and Education (IISTE). The IISTE is a pioneer in the Open Access Publishing service based in the U.S. and Europe. The aim of the institute is Accelerating Global Knowledge Sharing.

More information about the publisher can be found in the IISTE's homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. There's no deadline for submission. **Prospective authors of IISTE journals can find the submission instruction on the following page:** http://www.iiste.org/journals/ The IISTE editorial team promises to the review and publish all the qualified submissions in a **fast** manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

Recent conferences: http://www.iiste.org/conference/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar