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# GRAMEEN BANK MICROCREDIT MODEL REPLICATION IN AFRICA: THREE CASE STUDIES OF AFRICAN MICROFINANCE INSTITUTIONS

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# ABSTRACT

This thesis provides an analysis of three African microcredit institutions (Kenya Women Finance Trust, Sinapi Aba Trust, and Malawi Union of Savings and Credit Cooperative) and how successful they have been since inception. Each organizations measure of success will be determined based on a discussion of three well known microfinance institutions, one of which is the Grameen Bank. Recommendations are provided for each case study organization on how to continue on their path of success, along with extrapolations for other institutions trying to conduct such work.

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# Chapter 1: Introduction to Microfinance

In 1776 Adam Smith wrote *The Wealth of Nations*, detailing the use of capitalism and the laissez-faire approach as a solution to mend the differences between rich and poor countries, and ultimately their people. This new thinking of economics has helped us, as a society, reach new heights economically, politically and socially. It holds true today for the developed world: the United States of America, much of Western Europe and Australia for example (Mitra, Somjita, 2007). But what about the other countries that are not equally fortunate? What happens in the developing world when the first world turns a blind eye? This would be an interesting study for another time. For now, the focus is on poverty in those regions, and whether or not there is in fact a cure.

Currently, over a billion people live on less than $1 a day based on purchasing power parity, with another billion living on less than $2 a day (Mitra, 2007). By pooling the resources of the modern, developed world, one would think it would be easy to solve this everlasting issue. In 2001 the World Bank expanded its definition of poverty to include the "notion of lack of opportunities, capabilities, sense of voiceless-ness and vulnerability to external shocks" (Gobezie, 2004). Strategies have been employed in the past in an attempt to alleviate some of the suffering of these people, but most are on the macro level, dealing with exports, corruption and attacking property rights. None however seem to have hit the root of the problem, helping the people in need first.

A new idea was introduced in 1976 that would lead to the creation of entire institutions focused on executing this model. Nobel laureate Bangladeshi Muhammad Yunus created the idea

of Microcredit, the basis of Microfinance, that has been widely used in an attempt to eradicate poverty. This model and more background on Yunus are given in the following section.

**Microcredit**

In this paper focus will be on poverty alleviation and the microfinance models used in Africa. All assumptions and analysis are applicable to the African continent and countries within that region, and should not necessarily be extrapolated to other geographical areas.

Encyclopedia Britannica defines "microcredit" as: "a means of extending credit, usually in the form of small loans with no collateral, to nontraditional borrowers such as the poor in rural or undeveloped areas" ("microcredit", 2014). It can be broken down into several pieces. "Extending credit" simply means providing access to financial services, otherwise known as savings and loans. One of the biggest issues the poor are facing is that many have the ability to work and produce, but cannot get access to capital. This leads into the next part of the definition: "small loans with no collateral." To any banker, this is a red flag right away. A small loan has even smaller nominal returns, and absence of collateral is very risky. This is a general credo of the microfinance model and something that Yunus found out early on (discussed later). Poor people don't have the means to pay back large loans and have nothing to back them up with. Here is where the idea of small loans and no collateral came into play, and as we shall see later, can work quite well.

The last part mentions "nontraditional borrowers". This is an antithesis of sorts to the type of lending and borrowing that was going on before 1976 everywhere in the world. Banks would only lend to those in whom they had confidence to pay back the loan in full and the idea of lending to this "nontraditional" group was simply preposterous.

One of the biggest plaudits to the microfinance model is that it allows people to become self-reliant (Mitra, 2004), and empowers them to become better people. By being provided a small amount of capital, the poor become self-employed and foster entrepreneurship. Another fascinating aspect of the model that Yunus came up with and that will be discussed later in greater detail is that loans are primarily given to women. Women are seen as more financially responsible than men, and it empowers them and provides the opportunity to feel independent. Also new was the concept of group lending, which has its roots around the idea of lending to a group of people rather than an individual as the "collateral" in the form of social pressure and an incentive to pay back the loan.

According to Mitra, the objective of providing these services to the poor is to help them support themselves and their families through income-generating activities. Because "their limited resources do not have to be used for subsistence living, microcredit recipients can focus on sending their children to school, obtaining access to better health care and nutrition, and improving their quality of life" (Mitra 2004).

What proceeds hereunder is a SWOT analysis: an examination of the strengths, weaknesses, opportunities and threats of microcredit as they relate to the African context. Table 1 summarizes these findings.

*Microcredit Strengths*

Research has proven the importance of microfinance in poverty reduction, and has been shown to help lift families out of poverty. Each of the following is a way that microfinance has been known to aid the poor:

Most of the time, the poor are in dire need for financial resources as most live from day to day and sometimes make do without any money. That being the case, life fluctuations can be extreme in the time of a “shock” (i.e. a natural disaster, harmful disease, emergency situation). Access to financial services greatly reduces the risk of these shocks, since having access to credit, insurance and pension products can be vital in smoothing the income flows of the poor (“Microfinance in Africa, 2011). Simply having enough working capital to get by can become a huge burden on households, but knowing that there is access to financial service products can help turn the odds in their favor. According to “Microfinance in Africa”, successful Microfinance Institutions (MFI's) “regard the provision of financial services to the poor as a worthwhile service in its own right” (Asian Development Bank (1997).

Borrowers can use loans to pay off debts with informal community financial vehicles that charge much higher interest rates, thereby lowering the effective interest rate a household would have to pay. This is very important to note, as many families find themselves in a vicious cycle of debt. Having taken a high interest loan from what is essentially a loan shark (up to and over 100%), they realize they can’t pay it back so they take out another loan with just as unfeasible an interest rate to cover the first loan, and the cycle continues. Microcredit has vastly helped in this regard, despite the criticism that interest rates remain too high.

Microfinance loans can be used to cover one-time expenses, such as school fees for children, emigration, and housing. These offer comparable but longer term returns than investment in microenterprises (Microfinance in Africa, 2011).

Successful MFI's recognize that a lot of microenterprises are tied to households, at least when it comes to capital. A loan to a small business can be used to run not only that but provide for the family as well. It is impossible to tell where funds are being used and not worth looking

into. MFI's have realized that the best policy is allowing the borrower to use the funds as she wishes. Repayment rates have been fantastic under this system as both lender and borrower are happy. This dynamic has also led to enhanced risk management, and enabled enterprise development and better money management, key factors in building viable communities (Cull et al., 2009).

Access to financial services (savings and credit) can enable the poor to run microenterprises and build assets. “Access to flexible, convenient, and affordable financial services empowers and equips the poor to make their own choices and find their way out of poverty in a sustained and self-determined way” (“Microfinance in Africa”, 2011). Most young entrepreneurs are looking to expand already existing businesses or ideas, as opposed to starting fresh. This reduces the risk of providing loans. Additionally, many of these enterprises are run by women and have low-capital, low-skill entry barriers, and provide additional income to their households; all good reasons to provide capital. Microfinance is income-augmenting, not employment-generating, according to Liedholm and Mead (1995) (“Microfinance in Africa”, 2011).

A small initial loan size and small periodic repayments contribute to the impressive repayment rates MFI's are currently experiencing. When given the burden of paying off a $100 loan 90 days from now some poverty stricken people might be excited about the capital but forget about the repayment 3 months from now. On the other hand, receiving the same amount of loan and having a weekly or biweekly payment plan looks a lot better and is easier for borrowers to repay (Cook, Michael et al, 2008).

Economic growth and job creation are functions of successful microfinance programs, “as small business development and access to housing finance generates new cycles of

accumulation and contributes to higher levels of effective demand" ("Microfinance in Africa", 2011). Microfinance can provide social benefits on an ongoing, permanent and large-scale basis. "Microfinance offers the potential for a self-propelling cycle of sustainability and massive growth, while providing a powerful impact on the lives of the poor" ("Microfinance in Africa", 2011).

Access to financial products also translates to better health and nutrition for those in poverty (Leatherman, Sheila et al., 2011). For example mortality rates have decreased in areas where MFI's have been in operation (Mitra, Somjita, 2007). This trend allows households to plan better for the future and send their children to school for longer periods of time. Better health trickles down to many parts of a community and is also a positive effect.

One of the most important and successful attributes of microfinance is the empowerment of women. For long, women in poor, rural communities have been marginalized and seen as second to the men in the household. By putting capital in their hands, the system is not only increasing income for women but also enhancing their status within a community, providing economic and financial security, the ability to make purchases on their own, and freedom from domestic violence. In this way microfinance empowers both on a social and an economic dimension ("Microfinance in Africa", 2011). The inclusion and mobility of women along with their access to information is furthered by their attendance at borrower meetings and their participation in community events (Grameen Bank, 1998).

Microfinance also trumps other forms of intervention in its usage of donor funds. Under this system, donor funds can be reused. Once put into the cycle, capital keeps flowing. Compare this to an investment in, say, a new building (i.e. infrastructure development) where no funds are likely to be reaped. It is the self-sustaining nature of the model that makes it so appealing.

With regards to the financial system, MFI's can leverage themselves by creating links with bigger banks as a source of wholesale financing (Microfinance in Africa, 2011). MFI's have an upper hand when it comes to retail banking to the poor, while the formal banking sector has the advantage of wholesaling to MFI's. Once these two are integrated into one function (i.e. one bank), the efficiency of the overall financial system in that particular economy will be bolstered.

*Microcredit Weaknesses*

There are numerous challenges that MFI's face when putting microfinance models into practice. Research has identified several weaknesses not necessarily fundamental to the model, but rather areas that are just harder to navigate. Below are some of the suggested weaknesses:

Microfinance does not cater to the poorest of the poor. There are many people who live in complete destitution and are therefore outlawed. They are too concerned with living to see tomorrow that they cannot be worried about running a microenterprise. These are typically old, sick or disabled people (Morduch, Jonathan et al., 2002), who also lack education, management skills and social interactions necessary to make the microfinance model run. Such social interactions include being able to attend regular meetings and make regular repayments, things that are extremely difficult for the poorest of the poor. Therefore it evidences the fact that the system doesn't capture *everybody*.

Looking at a longer time horizon, "microenterprise promotion can never be a substitute for a variety of social sector programs such as primary health care, environmental sanitation, education, nutrition, and family planning and child care, or 'structural' changes, such as land reform" (Microfinance in Africa, 2011). Microfinance, however, is by no means, for instance, a

substitute to traditional educational systems. It should be used to supplement existing resources in communities, not replace them.

It is equally true that in the long run MFI's that are unorganized or unprepared will most likely lose money. Institutions that serve the poorest will hold a very risky loan portfolio with high chances of default and low repayment rates. Autonomy from donor or government support will be extremely challenging for those trying to serve the very poor (Marulanda, Beatriz et al., 2010).

Some researchers have noted if  loans are given to women, men might feel slighted and lash out against the woman (Kulkarni, Vani, 2011). That being said, cases of domestic violence due to this model are very rare, and it is difficult to distinguish whether or not microfinance was the cause.

In the absence of appropriate measures microfinance can generate a lot of debt for the poor plunging them into further poverty (Morduch, Jonathan et al., 2002). Borrowing money is always risky, and it can take a medical emergency or an economic shock to prevent repayment.

Critics of microfinance mention that although the system paints the picture that “any poor, even the poorest of the poor, can benefit”, in reality that is not the case. Most impoverished people are poorly educated, have little to no entrepreneurial drive, and are marginalized by society (Morduch, Jonathan et al., 2002). Microfinance is more likely to help the middle-tier of poor people rather than the completely destitute. The recipient has to *want* to grow her business and herself. The poorest of the poor need skills training and social preparation, and the “wealthy poor” need training, technology upgrading, marketing assistance and the availability of inputs (“Microfinance in Africa”, 2011). These interventions might be more useful than microfinance according to critics.

Demand constraints make it tough for many microenterprises to exist and there is certainly a cap on how many can come about. Some of the areas in which microfinance has been working in are rural villages where there are not a whole lot of business opportunities, especially for the poor. Demand is very limited and inconsistent, and oftentimes there is a demand for a product that cannot be produced in the village due to lack of skills or inputs (Morduch, Jonathan et al., 2002).

It has also been argued that microfinance can play a part in bringing to the front burner of anti-poverty plans, the generation of wage-employment via intensification of agriculture and rural public programs (“Microfinance in Africa”, 2011).

Indeed, it is very difficult to bring the poorest of the poor out of poverty with microfinance plans alone; hence, different types of intervention are still necessary. Food aid or cash grants are also still necessary, as MFI's are yet to be completely autonomous.

*Microcredit Opportunities*

Despite the weaknesses in the current model, there are still many opportunities to be seen in the future of this field. These include:

Most if not all African nations are reforming their countries economically, leading to macroeconomic stability and a market-based economy encompassing all of Africa (Bali, Nishant, 2005). Additionally, African nations are making regional agreements whereby trade will be increased among some countries.

Emerging markets provide great opportunities for entrepreneurs starting business and coming up with fresh ideas. New clientele and heightened demand for new products can help a microenterprise get off the ground.

There are potential synergies from microfinance and education or health related services. With the infrastructure for microfinance already in place, it has a greater chance to succeed and affect more people (Bali, Nishant, 2005).

Accessibility to the poor will only increase, due to the growing number of banks in circulation and technology advancements. Existing distribution channels will be bolstered, and new ones will be formed (“Microfinance in Africa”, 2011). Mobile devices can also start to be used, as in 10 or 20 years from now even the poorest of the poor will have a phone.

Increased linkages among the banking sector, private sector and MFI's will greatly help. This will make transactions more fluid and funds more easily transferable. Having a large, national bank supporting an MFI is important, and having a transient relationship between the two will prove to be crucial in the future.

*Microcredit Threats*

Although there are opportunities for the future of microfinance, there are also several factors that pose risks, or are considered as threats. These include:

Political risk is the most pressing threat to microfinance (“Microfinance in Africa”, 2011). New political regimes can discontinue programs started by old ones, and instill policies that could hurt the model. In emerging democracies politicians may try to use microfinance for political reasons without following through on promises. It is a good selling point when elections come around.

The misconception that microfinance is “charity” could hurt its cause. People could bunch all of the MFI's with other institutions that are actual charities. This hurts the sustainability

of the system, and education about microcredit is required to fix this problem (Bali, Nishant, 2005).

There is less product diversity in the credit products and the range of credit models offered to low-income households and microenterprises in markets with interest rate ceilings (Microfinance in Africa, 2011). Instituting interest rate ceilings may hurt MFI's as much as it sounds good politically. High rates also exclude those with horrible credit or absolutely no collateral to offer. Additionally, lenders may increase barriers to entry into the borrowing system to counter the interest rate ceiling. The lowest income people will be dropped, as minimum loan values are typically higher than what they need or want. Some MFI's might leave the market where ceilings have been imposed, saying they will no longer be profitable or operations will not run smoothly. Lastly, "credit exclusion" ("Microfinance in Africa", 2011) can send borrowers to riskier institutions for capital, such as traditional loan sharks or pawn-broking.

Increased competition could become a threat in the future, as more MFI's try to enter the market (Bali, Nishant, 2005). Although barriers to entry are high more firms are being created with spreading microfinance awareness and education. Other challenges in dealing with competing retail banks that specifically provide financial services to the poor will become a challenge in certain areas.

Microfinance is a relatively new concept, and therefore doesn't have all the kinks worked out of the system. This might not happen for a number of years, even decades, and poses a current threat. Moreover, someone might think of a better model tomorrow that would make this one obsolete. This is simply a risk of doing business, however.

Table 1- Summary SWOT Analysis of Microfinance in Africa

| **Strengths** | **Weaknesses** |
| --- | --- |
| • Provide working capital to poor to get by in event of external shock<br>• Capital can be used to start/bolster microenterprise or pay off existing debt (usually debt with a higher interest rate)<br>• Funds can be used for business or familial reasons<br>• Access to financial services can enable the poor to run microenterprises and build assets<br>• Periodic repayment packages lead to higher repayment rates<br>• Provide economic growth, job creation, social benefits to a community<br>• Empowerment of the poor<br>• Empowerment of women<br>• Improved health and nutrition | • Won't appeal to or help the poorest of the poor and those in complete destitute<br>• NOT a substitute to social programs (i.e. health care, education)<br>• Autonomy from the government or donors is very tough to achieve for MFI's<br>• Potential increase of domestic violence (very rare)<br>• Create further debt for the poor- an exogenous shock could ruin a family<br>• Poorest don't have the entrepreneurial drive to succeed in the current system<br>• Demand constraints and limited number of business ideas |
| **Opportunities** | **Threats** |
| • Economic reform of African nations that leads to macroeconomic stability<br>• Emerging markets are great spots for entrepreneurs to sell<br>• Africa is experiencing positive growth<br>• Synergies from microfinance and the health and education infrastructure already in place<br>• Accessibility to the poor will increase with more banks and better technology<br>• Increased linkages among MFI's and banks | • Political risk<br>• Misconception that microfinance is charity<br>• Governments inducing interest rate ceilings<br>• Increased competition among MFI's in Africa<br>• Novelty of microfinance- could be wasting time |

**Traditional Savings and Credit Opportunities for the Poor – The Susu**

Microfinance in its current model is a relatively new concept for many African nations where poverty is common. People recognized early on that access to savings and credit is integral to poverty alleviation. One of the oldest versions of microfinance in Africa is known as the *Susu*, started in Ghana in the 1950s ("General Background on Global Microfinance Trends").

Many other schemes developed based off the Susu model. "Moneylender" is another term often used to describe traditional "lenders" who are usually wealthier individuals wanting to take advantage of the poor, despite what they say about helping out. They do provide loans, but charge exorbitant interest rates. Their rates have been known to be 100% a year or more. In the long run moneylenders are hurting the poor more than helping them. Susu's on the other hand do provide a valuable service.

The original Susu was "a micro savings mechanism where individual collectors pick up daily deposits from savers over an agreed period of time and return accumulated savings minus one day's deposit as fees" (Anku-Tsede, Olivia, 2013). Daily deposits could be of any amount, and the agreed upon time period was generally a month. The interest was only one day's deposit, much more reasonable than the moneylenders' amount. However, savings could not be accessed at any time, only after the agree period was over. For example, in emergency situations funds could not be retrieved. This original model also had no concept of credit, which was introduced later (discussed below). It was simply a savings tool as opposed to a lending and borrowing one.

Credit would later be introduced to the Susu, and increasingly complicated systems would crop up. The most common type of lending in Susu ran as follows:

Each week starting from inception, members (usually 30-50 people) would contribute a predetermined amount to create a pool of funds. This would happen for a designated amount of time (generally a year), after which the funds would be redistributed to each participant. A month after inception, loans can be given. Members are eligible for a loan of up to three times the amount of their total contribution at the time. Interest on loans can range anywhere from 5-15% a month, depending on the area, and must be paid back within an agreed upon amount of time (typically 1-6 months). Loans can be provided as long as funds, coming from the weekly

contributions are available. Some Susu's have a Grameen-like system where they form groups of people within the Susu, and take turns borrowing. The biggest advantage of a Susu is that at the end of the year, the interest earned on loans is split evenly between members. Therefore, Susu participants generally end up with more money than they put in; a very attractive feature indeed (Anku-Tsede, Olivia, 2013).

Lending Susu's sound very much like the work MFI's are doing in that both provide loans to impoverished community members. However, there are a few differences. For one, in this type of Susu one still cannot withdraw funds until the end of the agreed period, for example a year. The Susu essentially acts as a Certificate of Deposit (CD) would. A lot of MFI's provide savings products and allow members to access their funds at any time, a useful feature in the case of an emergency. Although interest rates are usually better in Susu's than rates one would get from a moneylender, borrowing is still tricky. One has to wait for funds to accumulate in the pool, and can only hold the loan for so long (sometimes as short as one month). This makes repayment difficult at times.

The biggest risk of the Susu is that a defaulted loan hurts all members, not just the borrower, because there is a smaller pool of funds to break up in the end. One default might not make a big difference, but a lot of the poor have similar professions; for example, farming. A natural disaster such as a flood or drought could wipe out an entire crop season, leaving many members who were going to pay back their loans through agriculture income in default (Anku-Tsede, Olivia, 2013). The pool at the end of this scenario looks a lot smaller, and may even leave people with less money (or no money at all) than they began with. This is a risk inherent to the model, and one of the reasons many believe newer microfinance credit models are superior ("General Background on Global Microfinance Trends").

## Chapter 2: Literature Review

There is a school of thought comprising the majority view that microfinance is banking for the poor. They argue that most mainstream banks have considered the poor high-risk and hard to serve because they often live scattered across remote areas and because the small loans they need are costly to make and maintain. Those individuals argue that microfinance, which specializes in providing small loans and other financial services even to the world's most destitute, challenges those traditional assumptions (Kota, 2007). Indeed, microfinance is an important tool in the effort to end world poverty as it provides an outlet for the underserved in both rural and urban areas. It appears to be a promising route toward the provision of financial services to the poor, though there is still considerable debate about its future.

Morduch (1998) analyzing a cross-sectional survey of nearly 1800 households, investigated the impact of microfinance in Bangladesh. The survey revealed that all households served by microfinance programs do substantially better than control households. The study however, found no evidence of increased consumption levels or educational enrollments in participants relative to the control group. The greatest impacts were associated with a reduction of vulnerability (i.e. income smoothening appears to drive consumption smoothening and not via borrowing and lending). Specifically, the study finds fault in the failure of microfinance programs targeting appropriate clients, arguing that almost 30% of microfinance clients are way better off than the intended poor.

Kabeer and Noponen's (2005) quantitative research examined the social and economic impacts of microfinance carried out by a self help group in Jarkhand, one of India's poorest states. The results indicated that the bank-linkage model used had significantly improved

participants' livelihood bases, savings and debt positions, and living and consumption standards. Group participants have been able to secure their primary livelihood sources through their own agriculture supplemented by labor, livestock, and non-farm enterprise activities. By comparison, more marginally positioned nonmembers relied on work as unskilled laborers as their primary income source.

Participants' access to financial services and the strengthening of their agricultural activities is associated with less economic vulnerability as a result of higher savings, less onerous debt and crises-related borrowing, more investment in productive activities, and fewer months of seasonal migration. Also noted were significant welfare gains at the household level. This notwithstanding, women empowerment fell short in terms of participation in decision making, despite women gaining knowledge, awareness and new skills.

Saad and Duassa (2011) use econometric models to evaluate the economic performance of clients participating in the microcredit program of Amanah Ikhtiar Malaysia (AIM). The study found a significant impact on the economic performance of program participants correlated to the amount borrowed. Likewise, factors such as level of education, age, gender, assets owned before joining AIM, and area of residence were found to influence economic participants' performance. Level of education was also found to contribute significantly to the extent that it was recommended that the organization provide its borrowers education; specifically business training.

Drawing on an approach based on socioeconomic and comprehensive qualitative primary data, Mummidi (2009) looked in detail into the livelihood of women microfinance clients in India. The case studies revealed that women do not separate their participation in income generating activities from their family lives. Mummidi asserts that in order to better understand

the impact of microfinance on women a comprehensive knowledge and an improved understanding of constraints, skills and capabilities of women through their livelihood is crucial.

The argument is very similar to Rao's work (2008) in Andhra Pradesh, India which investigated microfinance and the content of the liberalization policy, and argued that women's empowerment policies were actually constrained by the policy context.

In Ghana, MkNelly and Dunford (1998) looked at the impact of microcredit on rural mothers' education and the nutrition of their children. The variables of interest in the study included the mother's economic capacity, her empowerment, and practices that affect her children's nutrition, health and survival. The study results indicated that provision of credit and educational services to women can elevate incomes and savings, improve health, empower them and improve household general welfare.

In an attempt to address barriers to survival and growth, as well as access to capital for expansion, faced by women entrepreneurs, the Della-Gusta and Phillips (2006) study in the Gambia, concluded that women entrepreneurs are negatively impacted by the gendered nature of the institutional framework. This works in a number of ways but specifically remains unnoticed in would be support policies. The study recommended a need for an integrated policy to address barriers faced in promoting entrepreneurs.

Studies have as well examined the effectiveness of microcredit program in poverty reduction in Malaysia. Specifically the Kasim (2000) work undertook an impact assessment on 283 members of a microcredit program in a Grameen Bank replication and in effect increased household income. In the study 70 percent of participants increased their incomes significantly.

**Microfinance Success Stories**

Success of Microfinance Institutions has been a question up for debate in the industry, and many articles have tried to define it. New MFI's are trying to replicate successes of existing ones and need to know what metrics and intangibles to look at. In this section, the original microcredit lending model will be discussed and analyzed, as it started from the Grameen Bank. Also analyzed are other MFI's that operate in Africa and how they have extrapolated the original model to fit the African context. Several success stories are highlighted as well. Through this analysis of past work researched in the field a definition of success will be established for MFI's working in Africa.

There have been many studies on the economic and social impacts of microcredit, and the results have been mixed. We can see success in looking at the model examples of the Grameen Bank itself, as well as in Africa Amhara Credit and Savings in Ethiopia and Life Above Poverty Organization in Nigeria.

Grameen Bank is the first microcredit organization ever formed, started in the 1970's by Muhammad Yunus who noticed that in Bangladesh poor people were being charged very high interest rates for loans and oftentimes they couldn't pay them back, resulting in a vicious cycle of debt. He decided to try giving micro loans at reasonable interest rates to see what would happen. As discussed in the previous chapter, the loans were given primarily to women. This empowered them along with providing assurance that the money would be used properly. Lastly, borrowing groups were formed, and instead of lending to individuals with no collateral, loans were given to those who were members of the group. This incentivized them to pay back the loan on time, or else others in the group wouldn't receive funds (Yunus, Muhammad, 1999).

Amhara Credit and Savings Institution (ACSI) operates in Ethiopia, East Africa, and focuses on the poorest of the poor. It currently has 174 branches across the country (Dar, Bahir, 2004). Despite recorded successes, ACSI still faces many challenges in expansion. "Taking into account the remote location of ACSI's clients and the poor infrastructure in [Ethiopia], it is clear that delivery of financial services to this target market remains a serious challenge" ("Amhara Credit and Savings Institutions: Ethiopia", 2006).

The Life Above Poverty Organization (LAPO) is dedicated to self-employment through microfinance and focuses on assisting the poor, and especially women, in increasing their socio-economic status. They not only provide loans but also help the poor overcome the underlying problems behind their lack of finances (LAPO, 2014). The group operates in Nigeria, Africa’s most populous nation in which 70% live below the poverty line making microcredit services extremely important. LAPO tries to do more with their customers than just provide funds. They get to know their borrowers and make sure they are doing as much as they can to help.

*Grameen Bank*

Grameen has seen many successes in its short existence. The bank has a loan repayment rate of 97% as of today, and almost 60% of its borrowers have crossed the poverty line. Women saw a lot of empowerment, both socially and economically. As a result of this and other factors, Bangladesh witnessed increased productivity. An example of this increased productivity comes from Abu Sarker (2001) who found that borrowers started using high-yield-variety-crop in their farms, drastically increasing food production. With increased productivity came increased wage rates. Grameen members who worked in the agricultural sector saw wages increase by 30-40% (Sarker, Abu, 2001). With increased wages, participants were able to save more and borrow less

from traditional moneylenders. This allowed households to cover their own expenses in times of emergency or crisis without going further into debt.

As incomes increased, many social, economic and political benefits were experienced. Families of Grameen borrowers showed better health and nutrition, with children eating better, fewer diseases and illnesses reported, and family planning improved (Sarker, Abu, 2001). Since it became easier to pay for education, children whose families took out a loan went to school for longer periods of time than children whose families didn't. Furthermore, since most loans were given to women, they started to gain a sense of empowerment within the family, specifically in regards to decision making. Women felt more confident, which led them to be more active in their households and communities (Kulkarni, Vani, 2011). It was even noticed that physical abuse in the form of domestic violence had decreased in this time period in the regions where Grameen operated (Sarker, Abu, 2001). Additionally, the exploitation of the poor by moneylenders or loan sharks vastly decreased with these types of people being nearly nonexistent today.

Microfinance has also had an impact on the poor in a political sense. Before microcredit was introduced, it was the rural power elite that helped the poor in exchange for votes to sustain the elite in power (Yunus, Muhammad, 1999). Post-Grameen Bank, the poor not only had a new way to increase their income without the help of the elite, but they were also free to vote for whomever they chose (Graziosi, Ascanio, 2010). This political freedom that the poor experienced led (in Bangladesh's case) to, or could have a multiplier effect and lead to, policies that help the poor even more in the future.

The reasons for Grameen Bank's success are multifaceted alongside its "ability to respond quickly and effectively to positive and negative field experience" (Yunus, Muhammad, 1999).

The high repayment rates, which are unparalleled by MFI's across the industry, result from the original model. However, what sets them apart is how they go about running the model and what actually makes them successful. The ability to maintain low operating costs, specifically keeping transaction costs to a minimum has been a key. Bangladesh's high population density provides for Grameen workers not having to travel long distances to visit communities and borrowers (The World Factbook, 2014), thus keeping transportation and other travel related expenses minimal. Finally, lack of government intervention, as discussed earlier, has helped them stay on track and focus on their own finances and budgets. Without having to provide these to the government, it is easier to budget appropriately and also saves some money.

*Amhara Credit and Savings Institution (ACSI)*

As one of the biggest MFI's in Africa, ACSI has seen success on several levels. They have consistently been able to turn profits, increase staff productivity and decrease costs. ACSI has always kept its operating expense ratio in check, even lowering it from time to time. Maintaining a quality loan portfolio year in and year out that is unaffected by write-offs and non-payments, along with maintaining high levels of liquidity and capitalization which gives rise to a strong balance sheet has been a staple of their business ("Amhara Credit and Savings Institutions: Ethiopia", 2006).

ACSI’s performance has enabled it to remain financially independent, thus allowing it to dictate its own path for the future, as opposed to being tied down by restraints from the government or outside donors. As such the organization is largely self-funded, with savings deposits "being an important component of total funding" ("Amhara Credit and Savings

Institutions: Ethiopia", 2006). As of 2013, ACSI maintained a deposits-to-total assets ratio of 42.3% (Mix Market, 2014).

The operational efficiency of ACSI is second to none. As of 2004 (last available data), its operating expense ratio was 6.2% ("Amhara Credit and Savings Institutions: Ethiopia", 2006), well below that of its peer group. Having a low cost per client allows it to operate at very efficient levels. One of the reasons behind this is their staffing model as ACSI has very high staff production ratios and low overhead costs (Dar, Bahir, 2004).

Management has also been a big part of ACSI's success. Early on the company gave sub-branches the autonomy to operate and conduct business activities with little central office involvement, in recognition of the fact that each sub-region is different and each client needs individual care and attention that can only be provided at the sub-branch level. That being said, the organization does have a centralized system that it requires every sub-branch to use. Through this they have standardized and simplified the model in a way that it can be implemented uniformly across all branches. It is up to the sub-branches to add or remove parts from there, considering the regional context of that particular area (Dar, Bahir, 2004). Management has also been superb regarding its employees. The organization tries to retain employees so as to reduce retraining costs, and provides benefits and incentives to longer-term workers.

ACSI's size and scope in Ethiopia as well as the kind of work undertaken has led to the development of a positive relationship with the government. ACSI has become a "strategic vehicle for government policies and to some extent this ensures that it receives the required government support, irrespective of the political inclinations of the government of the day" ("Amhara Credit and Savings Institutions: Ethiopia", 2006). Furthermore, as a result of its financial strength, independence, and its relationship with the state, ACSI can withstand political

pressures that would otherwise be detrimental to the health of the organization ("Amhara Credit and Savings Institutions: Ethiopia", 2006).

ACSI's ability to replicate microcredit models at inception is one characteristic feature that explains its success. We will be discussing this in more depth later in the paper when success is defined. Being able to take an existing model and tailor it to a new region is vital. Having the foresight to plan for cultural differences, for example, is what sets apart those that succeed from those that don't. Innovation is a big part of this as thinking of creative ways to solve new problems definitely helps. ACSI has been able to do this which is why it is considered a successful MFI in Africa.

### *Life Above Poverty Organization*

More so than most MFI's, LAPO is focused as much on societal impact as on just generating profits. This is one of its strongest attributes, as it has been able to make such a difference in Nigeria. LAPO's "social performance management is a structured process that ensures that social and economic goals are continuously balanced" ("Annual Social Report, 2011", 2011). LAPO understands that its social performance process will change over time, and that adapting quickly to that change will keep it ahead of the game.

LAPO's growth can be shown by the increase in the number of branches and clients over a six-year time window. From 2005-2011 the number of branches increased from 40 to 268, with the number of clients increasing from 48,735 to 518,187. These numbers reflect a 570% increase in branches and a 963% increase in number of clients. Clearly these numbers are skewed because of the novelty of the MFI; however, it is still impressive and a measure of success of the organization ("Annual Social Report", 2011).

Women empowerment is one of the most important goals of MFI's such that most MFI's make it a priority, and consequently measuring inclusion of women is a great success metric. As of November 2012, 92% of LAPO's clients were women ("LAPO MfB", 2012), an indication of its success in targeting women in small business roles. LAPO has been able to provide loans to this demographic to not only pull them out of poverty, but also to instill in them a sense of self-worth and confidence.

LAPO has been highly profitable financially, another metric used to measure MFI performance. In Nigeria's high interest rate microcredit arena, MFI's are not reducing their rates, at least not as much as operating expenses would allow. Instead, "high operating margins support a strategy of massively investing in infrastructure (expanded branch network, new information systems) and thereby support ambitious growth targets" ("LAPO MfB", 2012). It is these factors that account for the great portfolio quality and a return on asset of 11.1% as of September 2009 ("Life Above Poverty Organization (LAPO), Nigeria", 2009).

The last aspect of LAPO's success that will be discussed is its social commitment. As discussed previously, LAPO tries to balance its economic goals with its social goals. The organization has vastly succeeded in instilling values of social commitment in its entire staff from the CEO down. Its presence in communities has helped so many people get their lives going again, as by simply having a microcredit institution in a community members feel they have a greater chance of lifting themselves out of poverty ("LAPO MfB", 2012). An example of this is its "in-touch" program ("Annual Social Report, 2011", 2011), where employees go to communities to work in local branches for several days out of the year. This connects the company with the people, and shows that the organization cares about the poor.

Compared to ACSI, LAPO's success is less quantitative and has more to do with intangible, immeasurable aspects. Its activities in the communities it works in along with a continued desire to not only provide credit but also to help with the factors behind poverty on an individual basis are what define its success.

**Measures of Success Defined**

After looking at the above institutions and seeing what each did to become successful, a definition of success for an MFI can be established. The following section will explore components of such a definition, and the main categories for each measure - performance metrics, and social impact. There are several others, but the most important factors fall into one of these two groups.

All successful MFI's have been able to replicate the original model with a regional twist. 'Their operating models make use of the existing structures in the most unconventional ways. Working with what exists in new ways, as opposed to imposing new things into the existing environment, appears to be a critical success factor" ("Amhara Credit and Savings Institutions: Ethiopia", 2006).

When discussing an MFI's performance metrics, repayment rate is the first to look at. The percentage of loans that are being paid back in full is the most important quantitative aspect of an MFI's success. Grameen Bank, for example, has a repayment rate of 97%; one of the best in the world. Moreover, default rates should be kept at a minimum. None of the three organizations discussed above have problems with high default rates. Profitability is important, and as with any firm if an MFI can stay in the black while providing this service to the poor it can be self-sustaining and survive a long time in the market.

With respect to the poor, increasing household income is a very important metric. If an institution can raise the average income significantly in a community they operate in, that reflects a high degree of success. Seeing how many members have crossed the poverty line is equally important as that is one of the main goals of microfinance. Lastly, national metrics can be useful when looking at MFI's who have dominated one country for a long period of time. Economic growth in the region can be telling, along with such attributes as fertility rates, literacy, infant mortality, etc.

Other factors of success for an MFI fall into the social impact category. The biggest factor in this category is women empowerment. An MFI's success can certainly be measured by its ability to attract women to the bank, and increase in involvement of women in communities through borrowing. The empowerment of women and helping to raise their status in their communities are among the biggest goals of microfinance, and definitely criteria success can be measured by. All three institutions outlined above do a good job of this. Along with this comes community empowerment and helping raise its spirits. Clearly, the overall "mood" is hard to measure, but any positive influence on a community is noticeable. Another factor is family independence. Giving households the freedom to act autonomously from a moneylender is comforting, and it empowers the entire family not just the individual borrower. Looking at health and nutrition levels before and after the advent of an MFI in a region can be telling. Grameen, ACSI and LAPO have all seen health improvements in the communities they operate in. In some cases this can be extrapolated to the entire country. Lastly, educational improvements are also worth looking at in the sense of further education for children of members, rather than just improvement of systems and infrastructure.

Besides the aforementioned items, a last measure of success for an MFI is sustainability. Can the organization reside in a region for as many years as is necessary to help eradicate poverty? The MFI must have a long term strategy in place to ensure longevity.

Generally, these factors define an MFI's success. This compilation of success factors was taken from the successes of the three MFI's studied earlier in this essay. Not all of them exhibit every metric, but they all share in the most important factors.

# Chapter 3: Analysis of Three Microfinance Institutions in Africa- Kenya Women Finance Trust, Sinapi Aba Trust, and Malawi Union of Savings and Credit Cooperative

In this chapter three smaller MFI's, Kenya Women Finance Trust, Sinapi Aba Trust, and Malawi Union of Savings and Credit Cooperative will be analyzed. Their success in the region they operate in will be measured based on the metrics discussed in the previous section. Based on findings from the analysis, recommendations for each organization moving forward will be provided subsequently.

## Kenya Women Finance Trust (KWFT)

KWFT is a Microfinance Institution that started in 1981 and operates solely in Kenya. This group started on the principle of providing "access to financial services to women entrepreneurs to enable them to improve their economic status and livelihoods" (KWFT Microfinance, 2010). It began by providing micro loans to women and has continued that creed throughout its existence. KWFT only gives loans to women at this time, and has a 60% market share in Kenya ("How the Kenya Women Finance Trust became a model lender"). Its aim is to reach families through women, and help alleviate poverty through provision of innovative savings and credit products.

This organization works in Kenya, another East African country comparable to ACSI (discussed earlier) which operates in Ethiopia, making comparisons between the two more reasonable. Although each African nation is unique and independent, the various regions (North, South, East, and West) have some similarities with regards to geography, culture and poverty

statistics. Kenya has a population of just over 45 million people (The World Factbook, 2014), 43.4% of whom live below the poverty line. This is much worse than in Ethiopia where ACSI operates.

KWFT's business model has changed over time, and now reflects a more traditional Grameen Bank style model. It targets women who run small businesses in the most poverty-stricken parts of the country, just as Grameen did in Bangladesh. They provide loans to groups of 15-35 people and have monthly repayment schedules (Institution: Kenya Women Finance Trust, 2010). In 2006, the trust was posting annual profits of over $1.5 million ("How the Kenya Women Finance Trust became a model lender"). The majority of KWFT's funding comes from the International Fund for Agricultural Development (IFAD), and as of 2012 KWFT had 247,375 active borrowers (Mix Market, 2014).

**KWFT Successes**

By 2010, KWFT's repayment rate stood at 98% (KWFT Microfinance, 2010). This is a fantastic rate, and as a measure of the organizations success reflects one of the best repayment rates of any African MFI. Since the fund exclusively provides loans to women, it has succeeded in empowering women in various poor communities throughout Kenya. In turn, through these micro loans it has helped pull many families above the poverty line. These are two major components of success that were discussed in previous sections.

Another measure of KWFT success can be seen through the vast number of branches it operates (currently 46) across the country. These are strategically positioned to not only provide loans to women in the poorest parts of the nation in large quantities, but also through its partnership with the IFAD, KWFT can give its field officers greater efficiency. Instead of having weekly meetings with clients, borrowing groups are given intensive training for 3-6 months that

allows for only monthly visits from field officers. These employees can now have a longer reach, providing more loans and impacting more people.

The fund's key message to borrowers is that all loans must be repaid on time. KWFT has paralleled the Grameen model by expressing to borrowing groups that if any one individual loan is not repaid, the whole group will be cut off from future loans. If all loans are paid on time, however, subsequent funds will be provided and in increasing amounts. This is one way KWFT connects and builds relationship with its clients as it has built a level of trust through giving borrowing groups more freedom to act autonomously of the organization. This has led to better repayment rates and more poverty alleviation ("How the Kenya Women Finance Trust became a model lender").

According to MicroRate, a rating agency for Microfinance institutions, KWFT's success lies in its solid group methodology, diversified loan portfolio and determined top management (Thys, Gregory et al, 2009). To elaborate, it has instilled the importance of repayment well throughout the borrowing groups the organization provides loans to. It has also done a good job of keeping a diversified loan portfolio by avoiding giving loans to only one type of borrower (e.g. craftswomen). Furthermore, the number of borrowers has increased significantly, increasing 73% over the two year period from 2007-2009 (Thys, Gregory et al, 2009). This was during a period of financial strife in Africa and the rest of the world. Lastly, the report mentions how growth focused KWFT is, expanding its reach through more branches, loans, and employees.

The trust has won many awards during its time as an MFI. In 2013 it was once again recognized by OIKO Credit as an institution with a Focus on Women Empowerment. In addition, KWFT won the 2012 HP Mission-Critical Innovation Award and the 2011 the Hongera Excellence in Leadership Award, as well as the 2009 CCA Business Excellence Award for

Financing. This mix of managerial, financial and social awards and industry accolades shows acknowledgment of the impact KWFT has had in Kenya.

**Sinapi Aba Trust (SAT)**

SAT is a Christian Non-Governmental Organization (NGO) created in 1994 to provide microfinance products and services in Ghana in partnership with the Opportunity International Network. The company operates on the tenet of providing "*small and micro-credit services to viable small and micro enterprises, many of which find it difficult accessing financial assistance from the formal banking institutions due to their inability to provide the required collateral or security*" (Sinapi Aba Trust, 2014). Founders of the trust believe that all people have the dignity of providing for themselves, their families, their church and their community.

SAT operates in Ghana, a West African nation, similar to LAPO (discussed earlier as a success story) which operates in Nigeria. Comparing LAPO's success to measure SAT's is reasonable due to similar economic and political conditions in the region. Ghana has a population of over 25 million people of which 28.5% of all people live under the poverty line as of 2007 (The World Factbook, 2014). This is vastly better than the 70% of Nigeria's population living below the poverty line. Although the need may seem greater in Nigeria, Ghana is still a poor country that has seen sustained levels of poverty reduction through exposure to MFI's.

SAT's group-based lending model is executed through Trust Banks. These banks provide credit products to those with little to no collateral in the classic group-based lending format observed with all of the MFI's in this study. Conditions and procedures for extending credit to borrowers are simplified and "include a regular cash-flow from the business for which the loan is being sought, and attendance of the SAT-organized business orientation and training program" (Adjei, Joseph Kimos et al, 2009). Borrowers have to finish a training process before being

eligible for a loan. This process includes financial literacy educations along with instruction on what SAT can provide. As of 2012, SAT had 148,020 active borrowers (Mix Market, 2014).

**SAT Successes**

SAT has a loan repayment rate of 96.5% as of 2013 (Mensah, Charles, 2013). Although not quite as high as KWFT's repayment rate, this is still an impressive number, considering only 3.5% of loans default. Again the great strength for SAT is its branch network through which it conducts business. The trust has 50 branches throughout Ghana, in both rural and urban areas, striving to reach the poorest parts of the country. Recently, its number of loans disbursed increased by 16% from 2005 to 2008, indicating tremendous growth in its client base and loans originated ("Organizational Profile", 2008).

SAT's organizational profile (2008) indicates that 90% of all borrowers were women. This remarkable percentage and the fact that many of the clients are women definitely reflect SAT's grand impact. As a measure of success, SAT is doing a tremendous job impacting women.

Not only does SAT provide credit services, it also provides non-financial services in order to better help clients pull themselves out of poverty. SAT provides microcredit management services by infusing credit management techniques, loan appraisal best practices, monitoring and evaluating services, and the calculation and use of financial indicators. It also provides impact assessment and monitoring tools by using client surveys and evaluation of microfinance and micro-enterprise institutions. Lastly, it provides advisory services and best practices in key operational and managerial issues such as client retention, credit and delinquency management, internal controls and accounting methods. These additional services show that SAT not only wants to give money to entrepreneurs looking to start a business, but

also the tools and resources to succeed also. This is a feature that many MFI's fail to supply and that SAT excels in.

A survey conducted by researchers at the University of Manchester showed that Ghanaians who were using SAT products or services saw an overall increase in health levels and education for their families. Parents were able to send their children to better schools and provide better healthcare services for their families (Adjei, Joseph Kimos et al, 2009). This shows the social impact SAT has had in Ghana as it serves a large portion of citizens who live, or once lived, in poverty. In the same study, a discussion of physical capital ensued. Adjey argues that "an increase in the number of durable assets purchased for the household is regarded as a potentially strong indicator of the effect of a microfinance program on clients. It serves as a proxy measure of the wealth of a household" (Barnes, 1996, as cited in Adjei, Joseph Kimos et al, 2009). In another survey these researchers conducted, SAT borrowers were seeing an increase in durable assets (e.g. a refrigerator) for their businesses. Such expenditure is an important measure of success for an MFI, a region or a nation. This study found that participants were able to acquire diversified assets, i.e. diversify their businesses and products. By doing so, it provides businesses value risk protection as oftentimes a small enterprise is so narrowly focused that an external shock would devastate them.

Among the many accolades this MFI has been recognized for include: the MIX Global 100 Composite Rankings in 2010; the Africa SMME Service Sector Award in 2007; and runner-up for the 5$^{th}$ Annual Financial Services Excellence Award in the Ashanti Region in 2006 (Sinapi Aba Trust, 2014).

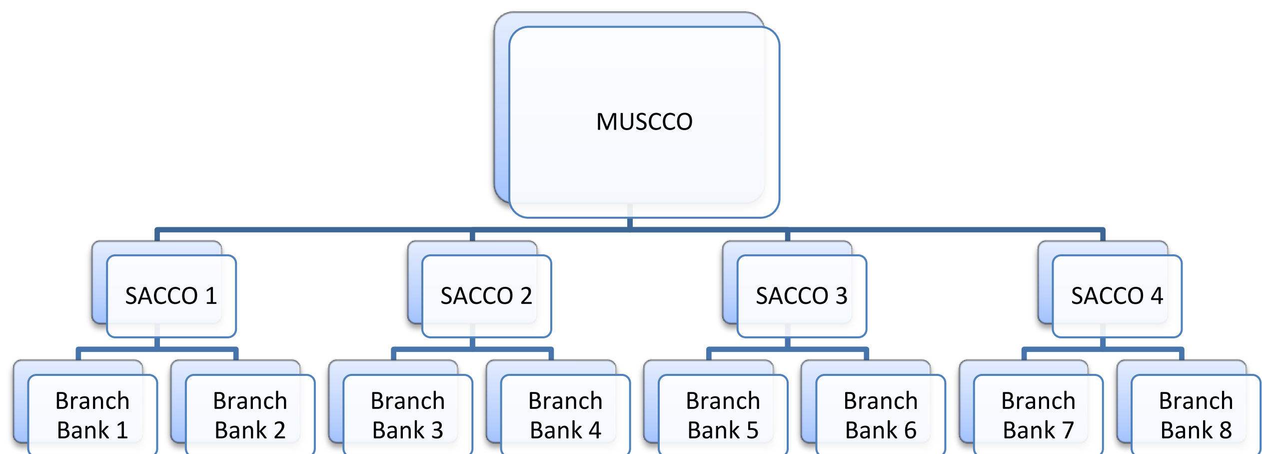
**Malawi Union of Savings and Credit Cooperatives (MUSCCO)**

Unlike KWFT and SAT, MUSCCO is not directly labeled as an MFI despite the work it does in Africa. MUSCCO is a member-based organization of Savings and Credit Cooperatives (SACCO) operating in Malawi (Malawi Union of Savings and Credit Cooperatives, 2014). SACCO's are "member owned financial institutions aimed at fostering savings mobilization and providing access to credit amongst individual members within a defined common bound" ("Malawi Union of Savings and Credit Cooperatives", 2008). People with common interests will come together and pool their money to start a more traditional microfinance-like cooperative which aims to promote savings and provide loans. An organizational chart of MUSCCO's relationship with SACCO's and Branch Banks is given in Figure 1 below. Keep in mind that customers would fall underneath the Branch Banks.

The group was established in 1980 to promote services to and support SACCO's in the region, with the provisions of liquidity and short term financing. MUSCCO's goals are to support SACCO's in developing and introducing products and services that correspond to the needs of their members, provide access to technical assistance and financial resources needed to support growth and expansion throughout the system, and set standards for practices among various types of SACCO's (Hauya, Innocent, 2009).

This organization operates entirely in Malawi. Although other Southern African countries are not discussed in this paper, MUSCCO is an exciting organization to look at in discussing microfinance and micro lending, due to its unique business model and success thus far. Malawi has a population of a little over 17 million with about 53% living below the poverty line (CIA World Factbook, 2014). Agriculture contributes to 35% of GDP (Hauya, Innocent, 2009). As of 2012, MUSCCO had 117,356 active borrowers (Mix Market, 2014).

Figure 1- Organizational Chart of MUSCCO




**MUSCCO Successes**

Since MUSCCO does not directly provide loans to individual customers – rather through SACCO's – it does not have a specified repayment rate. This makes it even more intriguing to researchers because of an element of the unknown surrounding it. MUSCCO has been successful in promoting economic growth and helping SACCO's with regards to improving social conditions for poor Malawi citizens. The services it provides are vast and include: bookkeeping and accounting, business planning and budgeting, policy formulation and promotion, SACCO linkages, and consultancy services among other services (Malawi Union of Savings and Credit

Cooperatives, 2014). They also provide financial counselling and member education in attempts to improve financial literacy.

Another MUSCCO success can be seen in its lobbying efforts. By placing emphasis on marketing locally and internationally, MUSCCO is now well recognized by the Malawi government as well as by other nations' bordering it. This is another attribute of success which comes in terms of MUSCCO's representation in and outside of Malawi.

Through its network of SACCO's, MUSCCO has managed to reach out to the rural poor, giving them an opportunity to save money and borrow funds at reasonable interest rates. There are several examples of how MUSCCO accomplished this. One is through its use of Study Circles, groups that come together on a regular basis to share knowledge on various topics. SACCO representatives also attend and provide education not only on savings and credit management but also on other issues such as HIV and AIDS, legal and human rights issues. Group Savings and Loan Programs, which are more traditional microfinance group-based savings and lending models, are yet another example of MUSCCO's success.

Table 2- Summary of Success for Three MFI's - KWFT, SAT and MUSCCO

| | **KWFT** | **SAT** | **MUSCCO** |
|---|---|---|---|
| Country of Operation | Kenya | Ghana | Malawi |
| Population | 45 million | 25 million | 17 million |
| % Under Poverty Line | 43.4% | 28.5% | 53% |
| # of Active Borrowers | 247,375 | 148,020 | 117,356 |
| Repayment Rate | 98% | 96.5% | N/A |
| Are Borrowers Crossing Poverty Line? | Y | Y | Y |
| Women Empowerment? | Y | Y | N |
| Household Empowerment? | Y | Y | N/A |
| Increase in Health? | N/A | Y | N/A |
| Increase in Education? | Y | Y | N/A |
| Increase in Assets? | N/A | Y | Y |
| Provide Non-Financial Help? | Y | N/A | Y |

Source: Author's analysis from data provided by respective institutions

# Chapter 4: Concluding Remarks and Recommendations

In this section, recommendations for each of the three case study organizations, KWFT, SAT, and MUSCCO is provided. Their success has been determined based on the earlier discussion of Grameen Bank, ACSI and LAPO; three MFI's who have been extremely successful in the areas in which they operate. This section should be used by MFI's attempting to start similar types of organizations, or improve upon existing ones. The three case study MFI's are all unique and have different qualities that are important to recognize before following the below recommendations.

Findings from the previous section vary for each organization. KWFT can be deemed successful due to its high repayment rates and positive empowerment of women. SAT has been successful due to its repayment rates as well, along with the positive impact it has had on education and healthcare in Ghana. MUSCCO's results are inconclusive; it has a great organizational structure but actual empowerment of women and communities cannot be measured. Repayment rates were unavailable, and due to its partnership with individual SACCO's it does not directly work with the poor. Please reference Table 2 (above) for a thorough summary of the successes of each MFI.

## Recommendations

### *Kenya Women Finance Trust*

KWFT has been extremely successful through its programs aimed at reaching poor women in Kenya. In particular, the organization has a fantastic repayment rate and an extensive branch network reaching remote parts of the country. As discussed earlier, success can be expressed by women empowerment and social impact, on both of which KWFT does a

tremendous job. By strengthening women in terms of their empowerment boils down to empowering families, improving education and increasing access to healthcare services.

Despite noted successes for KWFT, there are improvements still to be made. Specifically to their MFI, organizational structure needs to be analyzed and potentially changed as middle management has been stretched thin by growth (Thys, Gregory et al., 2009). Furthermore, its management information systems and overall technology needs to be improved and keep up with changing technological needs. More generally, there are issues that can be extrapolated to other MFI's in the region and across Africa. It has to make sure that it maintains growth alongside its core values while doing so. Growth is great but social impact cannot be left behind in the name of efforts to increase the bottom line. KWFT should commission a study to measure the specific impact its services have had on women and their families; a more realistic measure of its success and their impact in Kenya.

*Sinapi Aba Trust*

SAT is the most relatable MFI in terms of its business model to the original Grameen Bank model. Its success in Ghana can be seen in terms of high repayment rates and having impacted many women and families. Studies have shown that health and education levels have increased for families of SAT borrowers, along with durable assets and other measures of improved life conditions. Recommendations made for SAT are the broadest of the three case study MFI's as their model reflects the “traditional” microfinance model the closest.

First, growth with sustainability poses a big challenge for SAT. Much as it wants to keep expanding it cannot sacrifice sustainable impact. The organization strives to become self-sufficient, a major goal for not only SAT but for every MFI. Over-borrowing and loan defaults

are always issues for MFI's operating in any region, but SAT has had a particular problem with this. Although yielding a repayment rate of 96.5%, there is room for improvement. Moreover, carefully managing the amount groups and individuals should borrow is key to decreasing overall loan defaults; an issue SAT faced early on but has since corrected with appropriate repayment schedules. Scheduling instalments at intervals that allow for the most fluid repayment is an important concept that must be nailed down. Keep in mind that it varies per country, per group, and per individual borrower.

Looking into insurance products for the poor, especially those in the agriculture industry, is equally important. Providing these options may cost more but can act as the ultimate form of protection in the event of a flood or a drought which are not uncommon happenings.

Lastly, if a future study were to be conducted on SAT it should be in regards to women empowerment specifically, and how exactly women and their families are being impacted through SAT's efforts

*Malawi Union of Savings and Credit Cooperatives*

MUSCCO's success is seen through its organization. The way the cooperative is set up provides for seamless management of the SACCO's, enabling easy lobbying and establishment of favorable government ties. MUSCCO has also done a great job of providing non-financial services to the poor, including savings education and credit management along with facilitating social and health related issues.

MUSCCO is the least traditional MFI among the three organizations studied, since it essentially manages SACCO's that conduct the micro lending work. The recommendations offered are equally unlike the others.

MUSCCO has to keep expanding and adding to its membership. Member retention is apparent, but increasing number of borrowers needs to be more robust.

Sustainability is also a big issue for MUSCCO. Although it has established such a large network, it needs to make sure that it is keeping tabs on all of the SACCO's; an important attribute for longevity.

As “tremendous growth in SACCO's assets has surpassed the knowledge levels of most of the SACCO managers” (“Malawi Union of Savings and Credit Cooperatives”, 2008), it will be important for MUSCCO to make sure that training programs are in place for the managers to provide for demands associated with such growth.

Another area of improvement for the cooperative is to make use of more business statistics to facilitate evaluating the SACCO's. SACCO's should report repayment rates, impact on women, the number of women borrowers, etc. If a future study were to be conducted on MUSCCO, it is recommended that it pools together variables such as repayment rates, percentage of women borrowers, and other important statistics on all the managed SACCO's to determine a level of success for the parent organization.

**General Recommendations for MFI's in Africa**

After the discussion of GB, ACSI and LAPO, and the evaluation of KWFT, SAT and MUSCCO, there are several general recommendations that can be offered overall. It is important to keep in mind that context matters; each MFI should be treated differently, as each geographic area in Africa is different and the people in each region require different types of attention. One should use this simply as a framework, and tailor it to the local culture, values and population.

The first and most important aspect to also be aware of is successful empowerment of households through the empowerment of women. Reaching women is difficult, especially in the

poorest parts of the continent where patriarchy still dominates. Yet setting up branches near these areas and actively attracting women to join is very important and leads to more success. The easier it is for women to be a part of the MFI by proximity, the more likely they will join and participate.

MFI's need to include non-credit related functions in their service offerings. This includes financial literacy education, health training and education, and family planning initiatives. Although these do not bring in additional revenues in the form of interest income, they are important resources the poor need to become successful and prosperous. Doing this will instill a sense of trust and help build the relationship that will keep customers happy and hence their retention. It is imperative not to overlook the importance of relationship building with the client.

Acquiring accurate data is also a key for MFI's. Regular collection and use of statistics and measuring performance and growth will help when it comes to strategy changes and addressing expansion needs and opportunities. The absence of or having incomplete records will hurt progress in the long run. Although data collection from remote villages is sometimes taxing, it must be undertaken be it by field employees or clients themselves. This creed could and should be passed down to individual borrowers themselves who should be encouraged to keep records of all transactions, either for personal or business uses. This would allow individual borrowers to determine where the pitfalls are with regards to their finances and look for means to fix them.

The overall MFI environment in Africa is expanding and more resources are being released toward these types of efforts, with governments loosening strings attached to operations as MFI's are gaining ground as important facilitators in poor economies.

Lastly, the involvement and incorporation of higher learning institutions and national universities in further research on microfinance and microcredit should be helpful in further

expanding the knowledge base about the role of MFI's in these economies and optimal approaches to be embraced over time.

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