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Review Paper

Microfinance: A review of the literature - development strategy recommendations for improving low income and poverty reduction in Ghana

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Abstract

"Microfinance" has been based on several propositions, recently. We examine the literature on microfinance and discuss concepts such as financialization, financial inclusion, neoliberalism, globalization and commercialization, and possible development implications on microfinance clients in Ghana-most of whom "do something not to remain idle". While pundits grapple with "microfinance", as a development tool, it becomes clear that today's challenges, often of high client indebtedness, require a new approach 'beyond mere inclusion' and/or commercialization or 'standalone' operations. We argue for capabilities aspect based on development partnership as key component of responsible financing, necessary to prop up the development proposition of microfinance operations for a win-win outcome. This means broadening the approach: recognizing and facilitating the active participation from identifiable key social institution such as the government (at the district level), traditional rulers, NGOs and the environment itself as indispensable collaborators for impactful microfinance service delivery. We propose a new definition of "microfinance" and conclude in agreement with Karnani (2009) who suggests that microfinance is not the solution but "jobs are the solution…".

Keywords: Microfinance, commercialization, development partnership, income, jobs, responsible financing.

Introduction

The term "microcredit/microfinance" has gained fame not only in poverty reduction and development circles but also in all manners of media and, recently, in various sectors such as agriculture, transportation, and housing. It is a key component of both national and globalized financial sector that has emerged, especially, for informal sector employed persons in an emerging economy as Ghana. From what we hear and read about microfinance, it has become a leading mechanism of financial inclusion, poverty reduction, enhancement of livelihood, and economic regeneration initiatives in cases such as disaster relief support, economic structural adjustment or even as a proposal for national debt cancellation around the world. It has been described as being "one of the most important economic phenomena since the advent of capitalism and Adam Smith,"[1]. The World Bank predicts that microfinance will be the economic driving force of the future. Early advocates who championed the microfinance agenda seemed to have perceived it as "the vaccine for the pandemic of poverty." Some pundits believe that microfinance is the new frontier of capital accumulation for the poor.

Problem Statement: While microfinance has gained widespread popularity over the last few decades, pundits grapple today over what microfinance actually is; and subsequently what it does within a typical economy. While some proponents advocate that microfinance is essentially a development tool, others regard it as a financial proposition based on its dynamism, premised on sustainability and profit making; hence a market for capitalist investment. However, microfinance has come under a barrage of criticisms for deviating from its original mission of assisting the poor into commercialized operations. There have been reports of huge indebtedness of clients and sometimes microfinance market failure. For example, "Indebtedness was central to the desperation conditions that prevailed…" in reference to events that led to the "Marikana Massacre" in South Africa in August 2012 [2]. A study in Ghana concludes that default rates are high[3]. Some critics of microfinancing even go as far as to suggest that microfinance is a neoliberal ploy to keep poor people in developing countries in a perpetual state of poverty[1,4-6]. In Ghana, microfinance institutions are the main financial institutions located in rural areas that go into remote areas and serve the local entrepreneurial-but-poor folks.

Such potential clients of MFIs constitute a majority of the lowest income earners of the employed population. MFIs alone cannot be responsible for the 'market successes' of their clients. Without proper development linkages between MFI and relevant partners aimed at preparing clients for 'market success', commercialized/ profit driven microfinancing could be counterproductive.

Aims of this Paper: We seek to review the literature of what scholars and institutions have posited to be the meaning of [or description of] microfinance. We discuss concepts such as financialization, financial inclusion, globalization and the commercialization of microfinance and make recommendation for ethical or responsible financing as a better way to ensure that microfinance remains a development tool to help low income earners do better. We subsequently propose a working definition of "microfinance".

Objective(s): The objective of this paper is to review the literature as it regards the 'microfinance' concept and consider certain environmental influences such as financialization, globalization etc on microfinance operations in Ghana. Thereafter, we assess potential implications of microfinance operations and make recommendations for Ghana's microfinance operations. Subsequently, we propose a working definition of 'microfinance'.

Methodology

Explanation building: the central premise here is to use theory to provide a better understanding of a research problem. Here, analysis is based on explanation. To "explain" a phenomenon is to offer a theoretical description to enhance understanding or causal links about it. The causal links are akin to cause-and-effect variables as it regards one proposition having an effect or bearing on another. The aim is to explain the essential logic.

The authors resort to theory and written literature as an analytic technique to establish cause-and-effect proposition of the role of microfinance as a useful imperative for opening up opportunities for poor people who are normally marginalized and excluded from economic participation. One promising approach to justifying a theory is via the idea of 'explanation building' whereby several pieces of information may be related to some broader or related notions of a subject[7].

Scope and Limitation: This paper focuses on a review the literature on "microfinance". But we extend its scope to cover broader notions such as financialization, financial inclusion, globalization, and commercialization which may have relevance as regards how microfinance can maintain its human centered approach as a pro-poor financial strategy to serve poor and/or low income earners in Ghana. We do so using conceptual analysis based on secondary literature. We do not provide statistical and empirical analysis to arrive at conclusions.

Significance of this Study: i. To highlight some perspectives on the origins and meaning of microfinance; ii. To discuss the basic philosophical underpinnings of microfinance; iii. To examine the impact of financialization, financial inclusion, financial intermediation, globalization, neolibralism, and the commercialization on the microfinance industry today and possible implications on microfinance clientele; iv. A contribution of this study is observed through the discussion of how contemporary microfinancing can become a tool to foster the progress of its main clientele who are the low income self-employed improve the financial rewards of the jobs they do; v. To suggest a working definition of 'microfinance' vi. The study becomes relevant for policy making and for further research.

Historical Brief: from "Microcredit" to "Microfinance"?

It can be observed that the concept of 'lending' is discussed in the main religious texts of the world. For example, lending/usury is discussed in the Bible book of Deuteronomy; while the Koran sheds light on usury within the Islamic context. However, the origin of 'microcredit' is traced to 15th Century Italy. Here, the *Monti de Pieta* (amount of pieta is an institutional pawnbroker run as a charity) was set up to offer relief to the poor[8]. Around that same time, Englishmen began establishing bequeaths for charitable loan funds[9]. In the 18th century, the author Jonathan Swift was lending in Dublin. Like 'microcredit' clients of today who often co-guarantee for a 'microcredit' loan, Swift's borrowers needed two co-signers who would be liable in the event of default[9]. Following on, some authors trace the genesis of institutional lending to the German cooperative banking which began operations in the mid-19th century[9-11]. Meanwhile, the birth of modern [micro] credit (agency) is also credited to Lewis Tappan in 1841 in New York City[12].

Contemporary institutionalized 'microcredit' is generally credited to the economics professor and Nobel laureate Muhammad Yunus who started 'microlending' in Jobra, Bangladesh, in 1977. Through his initial act of generosity, he realized that little amounts given to poor women, who engaged in little petty trading to eke out a living, enabled them to invest in their livelihood and generate profits. Now four decades and over, the model he established has become a universal practice as a tool to tackle income vulnerability by supporting income generation. Based on Yunus' initiative, he and his Grameen Bank were joint recipients of the Nobel Prize in 2006[13]. The citation for the Nobel Prize read, "…for their efforts to create economic and social development from below"[14].

The people of West Africa (including Ghana) are believed to practice "susu", a form of informal rotating savings, long ago. In Africa, the first form of institutional organization for microlending purposes begun in 1955, Northern Ghana[15].

Literature Review

Microfinance: The terms microcredit and microfinance are sometimes used interchangeably although microfinance is most popularly used today. However, microfinancing tends to emphasize the abolition of physical collateral. This means no collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods like the assessment of clients' repayment potential by running cash-flow analysis, which is based on the stream of cash-flows generated from activities for which loans are advanced[16,17].

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises[5b,18-21]. It refers to short term lending and recycling of loan and repayment of what can be regarded as very small amounts of money[22-27].

Microfinance is defined in relation to its users- rather than in relation to other forms of finance- as the supply of savings, credit, insurance and payment services to relatively poor people[28,29]. It is often regarded as an initiative to help vulnerable people deal with shocks such as floods or fire, as well as efforts aimed at encouraging wider participation by those who might be near exclusion from engaging more actively in markets[30]. Advocates champion the proposition that microfinance is the most suitable approach for supporting individual self-help efforts at both livelihood and development. Microfinance is also deemed to have a 'humanist proposition' which can rely on the social capital ethos to improve livelihoods. For example, Counts (2008), points out that microfinance's key asset was not its loan portfolio but its high quality relationships with millions of poor entrepreneurs[31].

Ghana's microfinance policy document (GHAMP) explains that microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. Microfinance refers to provision of small loans and other facilities like savings, insurance, transfer services to poor low-income household and microenterprises. Microcredit also refers to a small loan to a client made by a bank or other institutions[32].

The Asian Development Bank defines microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises[33]. The India Micro Financial Sector (Development and Regulation) Bill, (2007), defines microfinance as the provision of financial assistance and insurance services to an individual or an eligible client either directly or through a group mechanism[34,35].

The Consultative Group to Assist the Poor (CGAP), the apex association of international donors who support microfinance, defines microfinance as financial services for poor and low-income clients[36]. It regards microfinance as 'a powerful tool to fight poverty that can help poor people to raise income, build their assets, and cushion themselves against external shocks[37]. CGAP, in its Phase III Strategy 2003-2008, defines microfinance as credit method that adopts effective social collateral to deliver and recover short-term, working capital loans to microentrepreneurs (or potential microentrepreneurs). "The term microfinance is often used interchangeably as the related term 'micro-credit'. The term 'microcredit' refers to a small size loan for the unsalaried borrowers with little or no collateral security that had to repay within short period of time. Whereas 'microfinance' refers to a large range of financial services including microcredit, micro-savings, micro-insurance, money payment transfers, provident funds, pensions and other financial products provided by different service providers targeted at poor and low income people"[38].

The International Labour Organization (ILO) posits, "Microfinance is the provision of financial services to the poor on a sustainable basis. It is addressed to the poor and those excluded from market transactions. It seeks to broaden and deepen the market by emphasizing that ultimately microfinance institutions have to be sustainable[39]. Early on, the ILO (2005) in its policy statement declared, "Microfinance translates fundamental ILO values into action: it opens up opportunities for participation in the economy, it fosters solidarity and it empowers the working poor. It further advocates that decent employment and incomes depend critically on the financial market[39b].

Academic courses in microfinance often associates microfinance with promoting entrepreneurship, small business development, innovation, as well as using microfinance as a tool to support business expansion.

However, the purported capability and substantial financial inflows into the subsector make it imperative for academic research to be carried out[40].

Microfinance Institution(s) (MFIs): Microfinance institution is the term that has been used to mean institutions that provide microfinance services. They offer financial services to undeserved, impoverished communities and these services include savings accounts, insurance, health care and personal development[41]. An MFI is any institution that provides microfinance services. The term encompasses both non-profit organizations and for-profit entities[42]. MFIs are specialized financial institutions, united under the banner of microfinance, sharing the commitment to work towards financial inclusion. MFIs are also defined as institutions whose major business is the provision of microfinance services, such as deposits, loans, payment services, money transfers and insurance, to poor and low income households and their microenterprises[36]. Microfinance Institutions refer to financial institutions which provide financial services to the poor who are typically excluded from the formal banking system for lack of collateral[43b]. MFIs are regarded as providers of such financial services to poor- mainly credit and savings- although insurance and other payment services are rendered by some[44].

The concept of MFIs, is clarified by negating certain players from the purview of MFI's definition. A commercial bank downscaling its operations to reach the poor and a moneylender catering to financial needs of the poor are excluded from the definition, as they do not fulfill the value attributes associated with an MFI. As per the value attributes of an MFI, only if an institution has developmental roots and a non-exploitative intent in predominantly serving the poor can it be termed as an MFI. Thus, as per this definition, even a non-governmental organization (NGO) can be regarded as a MFI, only if it does microfinance as a core activity or has a separate division created to handle microfinance operations which aim to provide services that improve the lives of its clients[44b]. MFIs are considered as instruments for poverty reduction[45,46].

The Grameen I Model

Microfinance as we know today draws its inspiration from the model that was founded by Muhammad Yunus in the mid-1970s. He discovered that small amounts of capital to hardworking poor microentrepreneurs could break the vicious circle of poverty. Yunus had intended to run his program as a pilot project for a few years and then turn it over to banking professionals. But the financial institutions' contention that they can deal only on the basis of collateral energized him to consider something more of an institutional kind[31]. Soon, small amounts of money could empower an individual to scale barriers to economic self-improvement. The concept spread and soon gathered universal applicability. The programme was based on a unique methodology based on 'social solidarity' or social collateral'; from "'distrust'- based on tangible collateral, to 'trust'- based on an intangible ethos: what we can all aspire, mutually". The core objective of the Grameen Bank was to give small loans at affordable rates of interest to poor people, especially women, with the aim of helping them attain marginal successes in the marketplace in order to pay back the loans. "Microcredit programmes have brought the vibrancy of the market economy to the poorest villages and people of the world. This business approach to the alleviation of poverty has allowed millions of individuals to work their way out of poverty with dignity"[47].

Microfinance as Financialization

Financialization: What is it?: Financialisation denotes an increase in the volume of financial transactions[48]. It is to be noted that one of the factors that drives financialization is cost effectiveness. This aspect, in most part, supports the argument for commercialization and the profit motive. At its most general, financialisation is presented by Duménil and Lvy as the condition that gives rise to the present "Crisis of Neoliberalism", the title of their book[49]. Here "financialisation", "neoliberalism" and "globalization" are presented as three mutually reinforcing trends resulting in a "financial hegemony". Financialization is marked by the increase in household debt[50-52] "Financialization is not an end… but a tool in the … maximization of the income and wealth of the upper class[52]. This is demonstrated by a fall in the wage share of total income[49,53].

Microfinance as a Medium for Financial Inclusion: 'Financial inclusion', is 'the proportion of individuals and firms that use financial services'[54]. It is also defined to mean creating the space and environment to allow more and more people into the financial sector. It symbolizes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. Financial inclusion then becomes more relevant for those living in poverty as well as the rural economy because of their population size, market potential, and yet poor productivity, income and consumption patterns. With respect to microfinancing, "Financial services to low income entrepreneurs may be the single most effective way to reduce poverty and achieve broad-based economic growth[55]."

Microfinance as Financial Intermediation: It is to be noted that financial intermediation is a pervasive feature in many economies. As regards microfinancing, client portfolio and whom to lend to (targeting) cannot be understood without considering microfinance as a source as well as a product of intermediation. Basically, financial intermediation is the causatory factor in the savings-investment or lending-repayment process. Ignoring its relevance, nature and scope within a given community or economy would seem to be done at the risk of irrelevance. Thus, for the large majority of informal sector operators, microfinance is key to fostering that process. Financial systems help mobilize and pool savings, provide payments services that facilitate the exchange of goods and services, produce and process information about investors [clients] and investment projects to enable efficient allocation of funds, monitor investments and exert corporate governance after these funds are allocated, and help diversify, transform and manage risk. Arguably, microfinance is the perfect mode of financial intermediation between finance and those at the bottom of the pyramid.

Globalization and Microfinance: Globalization is often linked to capitalism based on the drive for 'additional financial returns or profit' from market activities. Globalization is a feature of contemporary world; driven by information and communications technology (ICT). It connotes the integration of international economies.

An IMF (2007) paper "Reaping the Benefits of Financial Globalization", observes that finance has moved furthest and fastest to most OECD member countries while small increases have been experienced by low income countries[56].

Implications of Globalization on Poverty in Ghana: The relationship between globalization and poverty in Ghana is obscured by the fact that for long poverty was more generally associated with rural economies and societies than urban ones, while globalization was expected to reflect the transactions of the more urban sections of African societies[57]. However, it is to be observed that Ghana's participation in the global economy is mainly through growth of goods exports of manufacturing products and primary products such as gold, bauxite cocoa beans and crude oil. It may also be for reasons associated with these same trends that significant poverty as well as inequality may become an important by-product of the process. According to the various Ghana living standards reports, poverty, in Ghana, is largely a rural phenomenon.

For example, the majority of rural and urban dwellers at the fringes of development might as well be caught up in an inescapable trap of subsistence activities of a traditional kind, without employment of technology or value addition. Such folks ‘doing something to earn a living’ might be content with living at the subsistence level without a vision to expand their operations or compete even at their local level. Without devising a broader range of ‘empowerment’ services, microfinance loans may become a ‘debt trap’. “A rising tide lifts all boats” approach; that somehow, the benefits of globalization will inure to the benefits of the poor is illusory[58].

Neo-liberalism and Microfinance: Some economists have sought to justify neo-liberalism and have been critical of the welfare state[59-61]. While their writings are helpful to understand neo-liberal globalization, they do not provide resources to understand alternative ways of expression of globalization. Neoliberal creed induced a “finance led growth regime”[62,63].

The underlying premise is that when individuals are given choice within a free market, they are empowered: “explanations for inequalities are then transferred from embedded unequal societal structures to individual recklessness or application”[64]. In some cases, individuals can benefit from such processes, being able to participate in new forms of consumption activities and enjoy the freedoms that come with economic success. However, there is not an automatic outcome of growing ‘freedoms’, as structural limitations on the ability to act in this new landscape of possibilities is greatly restricted by those disadvantaged and ‘less capable’ groups. Thus, rather than being able to take advantage of the new consumer choices which are available to them, these workers are excluded[65]. This has significant implications for social justice and the struggle for greater equity in societies throughout the world[66].

The Washington Consensus: The ‘Washington Consensus’ (Williamson 1989), contained many elements of the neoliberal agenda- including the perceived need for fiscal discipline, financial-sector reform, market-based exchange rates, liberalization of trade, and privatization- which were attached as conditions to many of the cooperation and financing agreements, including microfinancing. The social mission of microfinance as a pro-poverty tool is believed to have been compromised from then onwards.

Commercialization of Microfinance: Commercialization of microfinance means “the application of market-based principles to microfinance” or “the expansion of profit-driven microfinance operations”[67,68]. The term “commercialization” connotes “the adoption by MFIs of market-based principles in their microfinance activities regardless of whether they are under prudential or non-prudential government regulations”[69]. Commercialization of microfinance allows operators broaden the scope of product offerings while increasing their depth of service[70]. But “the emphasis on financial sustainability by the donors and opportunity for investors/capitalists compels development agencies to change their ethics, or at least it creates an internal tension between ‘compassion and capitalism . . .”[71]. It is observed that “for-profit investment institutions and opportunistic individuals began to sense the huge profit- making possibilities in microfinance, resulting in a flood of commercial funding moving into the microfinance sector from the late 1990s onward”[6b].

Commercialization and “Mission Drift”: Critics point to the vicious circle as a result of high commercialization. For example, they argue that within this dispensation, greater amounts of loans are disbursed, while greater returns on credit are expected and/or demanded. Investors of capital seek rents; having minimal concern for ‘entrepreneurial’ or borrower progress in the marketplace. Often, relatively poorer borrowers’ (having limited skills and know-how) faces the greater challenge; resorting to survivalist tactics such as multiple borrowings or “fixing someone” into a new loan-group. Such ‘agent’, after receiving a loan, virtually hand-over the loan to the ‘main’ client for continued operations and survival. In those circumstances, society’s productive, consumptive and potentially entrepreneurial base eventually lacks the benefit of generative productive prioritization[18].

Some Observed Shortcomings of Commercialization of Microfinance: Commercialization of microfinance places return-on-investment/profit motive above all else. Meanwhile, the not-for-profit MFIs operate as “public purpose” organizations[72,73]. The extensive commercialization and deregulation of the microcredit industry precipitated an even greater Wall Street-style calamity[6c]. Some critics of commercialization of microfinance draw a similar scenario like the sub-prime mortgage sector in the USA. They point out that commercialized microcredit industry exists simply to suck up as much value and spending power as possible from the very poorest communities and place it into the outstretched hands of the richest MFI owners, managers, individual investors and the investment community at large[74,13]: i. Commercialization of microfinance amounts to ‘accumulation by dispossession’ which is seen as a way of exploiting the poor and holding back their escape from poverty[74]. ii. Higher than normal interest rate charge(s) to borrowers[10,75]. iii. High dividend payment[76,6c], iv. Social mission suffer in favor of profit motive[75,6c], v. Social tensions through a vicious circle of indebtedness and frustration[2]. vi. MFIs serve relatively well-off clients and the fewer who can afford to pay back larger loans[77]. vii. Pavlović and Stoyanov did a study in Bosnia and Herzegovina and noted that commercialization and privatization of MFIs negatively affected the microfinance sector and had negative consequences for employment[78]. viii. Bateman referred to the microfinance commercialization as causing ‘”he death of microfinance’ because evidence obtained from outcomes showed negative results[6]. ix. Finally, according to the 'iron law of interest rate restriction' high interest rates on credit redistribute credit portfolios, favouring "larger, safer and older borrowers over smaller, more innovative and riskier, newer clients and concentrate loan portfolios in fewer hands". Consequently, this ensures that institutional loans are normally channeled to large borrowers[79].

Commercialization of Microfinance has come to Stay?: With the experience of MFIs the world over and in view of the facts of globalization, financialization, and such realities, it is not difficult to understand why we cannot wish commercialization of microfinance away. In Ghana, it is observed that one strong case for commercialization of MFIs from NGO status is to satisfy the legal condition for the 'evergreen' practice of collecting compulsory savings and going on to provide voluntary savings services and other products to clients. For example, the case can be stated of Sinapi Aba Trust (SAT, a Microfinance NGO) founded in 1994 in Kumasi. SAT broke up with the formation of Opportunity International Savings and Loans Company in 2007. What remained of SAT (NGO) converted into a Non-Banking Financial Institution in 2013[80].

The Grameen II

In 2001, the Grameen Bank was re-launched into the Grameen Generalized System or 'Grameen II' – fully embracing the 'new wave' microfinance model. Grameen Bank has now become like any other profit-driven commercial bank. From its lofty poverty reduction pursuits in the 1980s and 1990s, the bank has moved to a more modest goal of financial inclusion of poor women in Bangladesh. Thus, the original 'classic' Grameen Bank microfinance model was effectively relegated to history with the adoption of a neoliberalized microfinance proposition. Some pundits, however, believe that the 'new wave' of microfinance enabled it to attract much needed funding from rich philanthropists and profit-seeking private investors[6,31].

Consequences of Lack of Access to Finance or No Microfinance: Lack of access to finance, especially, for self-development or social advancement purposes may lead to impoverishment and worsens a 'vicious circle of poverty'. When people in poor countries have low income levels, thus low savings and low capital accumulation, their productivity and growth is limited"[81] Meanwhile ultimate benefits of microfinance is to endeavor to reverse this trend into low income, injection of credit, investment, more income, more savings, more investment, more income[82-84].

Brief of Ghana's Financial Inclusion Landscape: Prior to 1985, the Government of Ghana established specialized banks to intervene to serve perceived demands of distinct economic groups. The state authorities considered traditional banks to be ignoring indigenous farmers and small entrepreneurs[85].

Throughout the 1960s and 1970s, various development banks such as the National Investment Bank, the Agricultural Development Bank, and the Bank for Housing and Construction, were set up to meet the financing needs of specific sectors of the economy. This did not stop the proportion of total credit to priority sectors (especially to indigenous self-employed persons, 'cottage industries' as well as SMEs) to fall in decline[57]. The reluctance to lend to small businesses and the agricultural sector is often explained by bankers as the 'high transaction costs of lending to these sectors' which make small loans relatively expensive. In Ghana, as in many developing economies, banks see a favorable risk composition as one that is heavily weighted against the self-employed, small-scale enterprises and the agricultural sector. The directives from the Bank of Ghana to the banks to allocate more credit to 'priority sectors' were not accompanied by any incentives to the banks, bearing in mind the fact that these sectors were considered by most bankers to be the high-risk sectors[57].

Brief Description of Ghana's Financial Superstructure: Ghana's financial system is made up of banks (universal banks) and the other financial institutions. The Bank of Ghana (BoG) categorizes all other financial institutions as microfinance institutions for purposes of supervision[86]. The BoG has grouped the MFIs into categories (tiers) as below:

Tier 1 Institutions: Institutions providing microfinance services but already regulated under Act 673, as amended: Rural/Community Banks, Finance Houses, Savings and Loans Companies.

Tier 2 Institutions: Regulated under Act 673, as amended, Deposit-Taking Microfinance Companies.

Tier 3 Institutions: Regulated under Act 774, Non-Deposit Taking Microfinance Companies (Money lenders), Non-Deposit Taking Financial Non-Governmental Organization (FNGOs).

Tier 4 Institutions: Regulated under Act 744, Individual Susu Collectors/Enterprises, Individual Money Lenders/ Money Lending Enterprises.

Financial systems are a special case of (optimal) institutions and can be (re)formulated as such once the general analytical framework has been put in place. In Ghana, these microfinance programmes and institutions have become increasingly important components of strategies to reduce poverty or promote self-employment as well as Micro and Small Enterprise Development (MSED). But with high debt crisis in countries around the world and close to home, measures to act and forestall the shortcomings of microfinance needs to be considered[87].

Microfinance Clients in Ghana: Microfinance in Ghana is a diverse sector in terms of approach, methodology, history and ideology, so the question of what microfinance needs to do might involve understanding the nature of MFI or recalibrating what it means to be the kind of MFI that is needed for helping clients succeed by stepping up their game. In microfinancing, outcomes matter and outcomes depend on how it is implemented, to which audience, in what contexts and under what conditions. There has undeniably been an excessive focus on the supposed advantages of microfinance loans, which has too often been presented as a powerful tool for job creation, the eradication of poverty, the empowerment of women and the promotion of democracy without complementary aids to client success.

In Ghana, one can observe that those who are more patronizing of microfinance operations are women. Often, they trade in farm produce, cooked food and comestibles, petty trading, service provision, street vending and so on. In short, the majority of MFI clients are informal sector operators. A high informal employment of over 88 per cent means that a very high percentage of these categories of employed population are existing and/or potential clients of MFIs.

A recent publication by the IMF notes that labour share of income declines when wages grow more slowly than productivity. The result is that a growing fraction of productivity gains has been going to capital. And since capital tends to be concentrated in the upper ends of the income distribution, falling labor income shares are likely to raise income inequality[88].

The proposition that microfinance is ‘naturally’ designed to support individual effort at improving self-enterprise and livelihood is popular. But serving most people who do not have the skills and the persistence to become true entrepreneurs, the need for a sound microfinance infrastructure to combine both commercial interests while actively engaged in looking out for clients’ good (more “successful entrepreneurs”) appears more timeous than ever.

The Problem of Debt as Microfinance: Implications of Commercialization?: If the average poor person in Ghana employs themselves, as is often the case with microfinance clients, how can they reasonably be expected to thrive? A study in Ghana involving 25 MFIs reports that 60% of them have default rates above the internationally accepted rate of 3%[6]. This poses serious threat to the operations and sustainability of many MFIs. In the midst of low cash flows, irregular incomes, local economic instability and rising consumption aspirations of clients; profit seeking operations of MFIs create a situation where microcredits are an additional burden. Compulsory savings, frequent repayments, high interest rates and delays in impending loan disbursements force clients to take out loans from ‘secondary sources’ to pay their installments. This leads to increased dependency not only on several different MFIs at once, but also on local informal credit sources[71,89]. Meanwhile, a study in Bolivia and concludes that clients who do multiple borrowing are found to be more likely to default than those who do not[90].

Microfinance Impact Studies: Today, there is underwhelming evidence that institutional microfinancing does not always impact positively on clients. Two very crucial randomize control trials (RCTs) found no strong causal link between access to microfinance and poverty reduction[91,30]. They likewise found no evidence of improvement in household income or consumption. However, another study recommends a more cautious research approach[92].

Some Criticisms of Present Practice/Definition of Microfinance: i. By obtaining microfinance (loans), the poor becomes productive which results in increased household income, ability to repay loans, and they can escape poverty. ii. Microfinance adherents tend to fanaticize the notion which suggests, finance liberates the poor. Yunus states that “all human beings are born as entrepreneurs; these (poor) people need very limited capital in order to become involved in income generating activities”[47]. But Karnani observes microfinance has created very few true entrepreneurs who have created prosperous businesses. He suggests that microfinance is not the solution but “jobs are the solutions”. “Creating opportunities for steady employment at reasonable wages is the best way to take people out of poverty”[93]. iii. Microfinance cannot by itself generate income but should be considered as an important support service in the process of assisting relative poor people to developing micro-enterprise. iv. Criticisms of the generic approach: same notions of poor delivery of microfinance remains unresolved especially from a contextual perspective. v. Microfinance clients may incorrectly be considered as ‘entrepreneurs’ and yet helping them to become successful entrepreneurs is not as simple as proponent rhetoric makes it seem. vi. Microfinance clients face a host of problems- such as poor housing, transportation, poor nutrition, lack of entertainment and so on. The limited business training (if any) and initial loans were insufficient to overcome the barriers that these practical problems pose to client business futures. vii. Poverty itself (poor people) is non-monolithic and non-linear. It is a chronic phenomenon which requires an “all hands on deck” approach. viii. By observing the crippling consequences of debt burden on countries (such as Ghana who opted for the Highly Indebted Poor Country status in 2002), the world’ financial crisis in 2007/08, and cases of high default in repayment of debt as in Andrapradesh 2010, and Bosnia Herzegovina, it would make sense to adopt a more impactful approach to microfinancing.

The bottom-line is that if microfinance is deemed to have such notable shortcomings and research reports indicates that it has no substantial impact on clients at reducing poverty then there can be no justification for microfinance to have a role in development.

Need for Social Protection: Social protection schemes constitute a range of interventions which are established based on their objectives and the risk they are design to tackle. Social protection is needed to protect the poor [low income earners] against adverse developments and to fight poverty. Their effects on poverty (and wellbeing) are both direct and indirect, creating the conditions for higher productivity and risk management[94]. It 'focuses on reducing risk and vulnerabilities' and includes a range of public, private, and NGO interventions[94]. Apart from explicit microfinance NGOs, our observation suggests that commercialized MFIs in Ghana as well as their clients receive insignificant or no social protection. Social protection in the face of a whole range of disadvantages faced by microfinance clients such as high transaction costs and struggling or 'sacrifice' repayment is worthy of consideration on policy agenda. The reason for worrying about the consequences of no social protection for low income clients of microfinance operations is twofold. First, there is the straightforward consequence of remaining in perpetual low income status and debt in the short term. Second, however, is the fact that the short-term impacts can translate into medium-term negative impacts on assets, opportunities, and wellbeing all culminating to a vicious circle of low income earners and an ever increasing informal sector fueling persistent inequality.

Complementary Services: Non-financial services, alongside credit, are regarded as complementary. Embracing such approach can be a viable alternative towards medium to long term national development gains. That kind of investment would more than compensate for any shortfall in current narrow '*client liability'* approach.

Why Microfinance with Income-Centered Focus is Imperative: In Ghana, microfinance clients are predominantly self-employed business operators mostly found within the informal sector. Those in the informal sector or elementary employment earn the least monthly income apart from fishery workers. They include individual service providers such as seamstresses and tailors, saloon operators, petty traders, cooked food/food processors and so on – most of them being self-employed[87,95].

In Ghana, total educational attainment of population of secondary education and higher is 20.7 percent in the urban area and 6.0 in the rural area (page 11). Poverty in Ghana is mostly a rural phenomenon. Households in urban areas continue to have a much lower rate of poverty than those in rural areas: 10.6% versus 37.9%[96]. Analyzing these facts, albeit intuitively, it is not difficult to find that the low income status of majority of microfinance clientele is associated with low capacity, low educational attainment and low skill-set which limits their productivity level as well as their ability to compete for larger space in a given market at any given time; compelling them to maintain their subsistence activities at the same pace and size over the years. With increasing consumerism and globalization, indebtedness begins to take over clients' productivity.

Reconsideration of Microfinance for Development: Financial inclusion and credit expansion may act as an 'alternative to true wage increase' in some cases. In a publication, the authors described a "casino economy" whereby the human productive resource depended solely on loans[97]. Key questions to ask then is how would microfinance innovation come about? Will it come from regulatory agencies such as Bank of Ghana? Will it be from 'financialization' on the part of MFI's, or will it be a natural graduation when things are left to the MFIs to sort out?

Innovative Attempts at Providing Microfinance as Development?: A handful of interest free microfinance programmes have come forward in recent years to provide interest free financial services. A few countries including USA and UK have introduced interest-free banks and micro finance institutions (IFMFIs). A research found that interest free microfinance is more successful in poverty alleviation and reaching the poorest of the poor than interest based microfinance[98]. The attention towards IFMFIs further increased when the Asian Development Bank (ADB) reports (2006 and 2013) mentioned the special characteristics of interest free finance and its capability to provide alternative means to reach underserved groups in small rural areas and agriculture producers based on the institutional-network-approach as well as fostering civil society partnership. In India, the attention towards IFMFIs was started and further boosted when Reghuram Rajan (2008), stated the role which IFMFIs can play to reduce the vulnerable effect of financial exclusion, which is believed to be the main reason for extreme poverty in the country[99].

CGAP partnered with the Ford Foundation over the past decade to test the Graduation Approach through 10 pilots in eight countries. In these programs, families received food, seed capital, skills training, access to financial services such as savings, coaching and mentoring over a set period of time averaging around 24 months. Rigorous assessment of the pilots showed that incomes and household consumption rose at all but one site. Findings from India released in 2015 were even more encouraging. It also showed that beneficiaries spent more time working, went hungry on fewer days and experienced lower levels of stress and improved physical health. Some sites showed progress on women's empowerment and political engagement.

Michal Rutkowski, senior director of the Social Protection and Jobs Global Practice at the World Bank, emphasized that economic inclusion programs that increase earning opportunities and connect beneficiaries to markets and value chains are critical to the World Bank's mission to end poverty. "Governments and development partners are keen to identify cost-effective programs that improve the earnings, productivity, and resilience of the poorest and most vulnerable households and individuals. Making progress on the economic inclusion and jobs agenda is a big priority for the World Bank," said Mr. Rutkowski[100].

Horizonti is a poverty-focused MFI, in Macedonia. From the very beginning Horizonti indentified the Roma community as a potential market to serve, which is in line with the organization's mission and its social goals. Horizonti provides sustainable financial services to the Roma community, the most vulnerable, marginalized and socially excluded group in the Republic of Macedonia. Horizonti's financial services are short and long-term business loans to microentrepreneurs and small housing loans for reconstruction and repairs. In addition, Horizonti's activities include providing consultancy services to clients and access to non-financial services provided by its partner organizations. The case of Horizonti's long-term experience shows that the staff and loan officers in particular, are the key factor for success in this population outreach. But other development partners play an active support role. Designing just the right loan product that suits the needs and repayment capacities of Roma clients' businesses by a MFI is not sufficient to ensure a long-term relationship and sustainability.

The Concept of Responsible Financing

Responsible Finance is described as "coordinated public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and approaches, practices, and behaviors to create more transparent, inclusive and equitable financial markets, balanced in favor of all income groups"[101]. Responsible finance keeps clients at the core. It brings the focus back to the needs of the end-beneficiary clients by operationalizing practices that promote a more transparent, inclusive, client-centric, and equitable delivery of financial products and services. Embedding responsible finance practices as *sine qua non* for MFI operations requires collaboration.

Settling on the Capability Approach: The capability approach focuses on what people are able to do and be, as opposed to what they have, or how they feel. Sen argues that, in analyzing well-being, we should shift our focus from 'the means of living', such as income, to the 'actual opportunities a person has', namely their functionings and capabilities[102]. 'Functionings' refer to the various things a person succeeds in 'doing or being', such as participating in the life of society, being healthy and so forth, while 'capabilities' refer to a person's real or substantive freedom to achieve such functionings; for example, the ability to take part in the life of society[102b]. From Sen, we can deduce that the ability of a person is key to acquiring income. The priority is what we will call the 'normative focus' of the capability approach.

From a capability perspective, poverty is viewed as the deprivation of certain basic capabilities, and these can vary, as Sen has argued, 'from such elementary physical ones as being well nourished, being adequately clothed and sheltered, avoiding preventable morbidity, and so forth, to more complex social achievements such as taking part in the life of the community, being able to appear in public without shame, and so on'[103]. From this perspective, if the acquisition of debt shifts to over-indebtedness, the consequences can become underwhelming for all parties and counterproductive to the community and society. In this regard, *capabilities* enhancement is in sync with responsible financing. Meanwhile, the critical role of lack of finance as resources to the concept of poverty also has wider implications, because it determines (while undermining) which aspects of our way of life should be included in a minimum standard of living aimed at measuring poverty.

Identifiable Collaborators and Stakeholders

The Government: In Ghana, the Bank of Ghana (BoG) has ultimate oversight over commercial microfinancing. However, there are designated apex bodies which are setup to help develop the industry and so on. And there are various associations and companies which purports to support microfinancing. However, there appears to be a gap between microfinance service delivery and more engaged government/state support in that regard; especially at the district level. For example, although MFIs are to submit official registration/license from the BoG at the particular district assembly and in turn obtain a certification from that assembly, there appears to be a gulf in collaboration in that regard. But there is the need for engaged collaboration and support from the government through district assembly support for MFI as well as client success. For example, there is the District Business Advisory Board, the non-formal education office and so on within each district and yet, MFIs are often left all alone to 'do their own thing'. In short, local government effort to curtail poverty and low incomes need to consider propping up capability and other technical support to develop and support local MFIs as well as clients.

Financial markets and institutions arise to mitigate the effects of information and transaction costs that prevent direct pooling and investment of society's savings. But with some negative consequences cited (as the Andrapradesh, or South African, Bosnia, and even in Ghana), it is both necessary and important to understand the underlying functions that particular financial sector operators perform. Thus, the state is enjoined to do more by being a more engaged partner with MFIs for overall development of microfinancing; especially at the district level.

The government of Ghana (GoG) in improving the lot of Ghanaians is pursuing the "Transforming Ghana Agenda" a culminating factor to the emergence of a National Development Plan 2018-2057, under the auspices of the National Development Planning Commission (NDPC). The NDPC plan has four pillars: Social development, Economic Development, Environmental Development and Institutional Development[104]. Getting involved with MFI activities as a grassroot partner in developing the microfinance infrastructure is relevant.

The Role of NGOs: NGOs are described as "crucial sources of capacity that can be unleashed to complement and improve the effectiveness of the public sector"[105]. NGOs can further "be of use in both implementing capacity development plans and monitoring the outcomes of plans implemented by government", therefore, NGOs are both actors in and objects of development[106]. As endogenous actors in this process, NGOs are affected by changes in their environment. In Ghana, capacity deficit of 'poor or informal clients' necessitates the need for action to improve their performance. From the discussions, we have sought to point out that the challenges clients' face of inability to thrive during increased competition; globalization and local over-indebtedness can pose challenges. Indeed, NGOs are not new or entirely absent from participating in microfinancing in Ghana. However, many NGOs nowadays fear being considered 'bankers' in development, "the implication being that it is not through the transfer of money that development really takes place, but through other capacity building processes[107]."

The Role of Traditional Rulers/Chiefs: Although much is often said about the need for public-private engagement and/or partnership to foster national development, it appears not much is often considered of the strategic involvement of chiefs/regents and traditional rulers in the discourse of participatory development within the microfinance area.

Historically, traditional rulership existed long before the onset of colonialism. A traditional ruler is the person of his/her ancestry who occupies the throne or stool and who has been appointed to it in accordance with the customs and the traditions of the said area. In Ghana, the institution of chieftaincy is established by customary law and guaranteed by the 1992 Constitution. Although they do not have formal political power, the Constitution bars them from engaging in active party politics, in many cases they continue to command respect from their people and have considerable informal influence within their chieftaincy jurisdiction- where a particular tribe, dialect or language may be dominant. They work in conjunction with their subjects and therefore carry the whole community along to accomplish development projects that will be of benefit to the entire community. For instance, by establishing a charity foundation which supports education, health and other services, Otumfuo Osei Tutu II, King of Ashanti, is a promoter of human development[108]. In a similar fashion, Nana Amoatia Ofori Panin, the 35th king of Abuakwa pledged to introduce real economic development, commercial growth and the general progress and welfare of the people. At his coronation, he said, "the success of my reign is dependent totally on my ability as your leader to ensure that our future- our children- is really secure"[109].

The bottom line here is that for microfinance to be useful and have impact, indigenous solidarity is relevant and inseparable from a proposition which resides for and among people within local communities. With this background, it could be argued that broadening the development focus of commercial microfinancing to tap the strategic partnership with such traditional leaders can go a long way not only to complement MFI efforts but to also check the asymmetry of information as regards local clients; fostering risk reduction.

The Role of Academic Institutions: Of late, the efforts of research and its usefulness are especially tailored to unearth prevailing conditions at a certain local level. This suggests that researchers, institutions and the academic fraternity will be more useful in providing certain technical support or volunteering to be unofficial member(s) of MFI board as pro-bono service. Universities and higher education institutions do not live outside the society but are part of it. They have both academic and social role to help in society's upgrade.

Involving Foreign Missions and the United Nations: The United Nations organization is adequately represented in Accra by its units such as the WHO, UNDP, UNICEF, FAO, and UNESCO. Similarly there are foreign development partners such as JICA, CIDA, USAID, OXFAM, VSO, GTZ, DANIDA, World Bank, ILO, and WIEGO. Indeed, there is SEND Ghana, Grameen Foundation as well as the many foundations and charities. There is also ECOWAS as well as the AfDB that are supposed to be partners of all the people (not just those Ghanaians employed in their offices) in the efforts at development progress. Often, technical assistance at the grassroots is in the form of holding workshops for district assembly staff and the like. Perhaps it is high time there be a close collaboration with local MFIs in order to strengthen the MFI as a necessary private and yet social institution.

Development Partnership is Sustainable Development: Efforts to improve the lot of poor or low income earners vis-à-vis the environment is often mentioned as 'sustainable development'. The premise is that tackling low income of microfinance clients from a broader partnership or coordinated approach will have the greatest impact and will necessarily create better sensitization and reduce potential practices that could degrade the environment. This approach recognizes that the environment is an ally in development.

Working Definition of Microfinance: From the discussions, we can say that microfinance carries with it a certain ethos and soul. Commercialized microfinancing does not take away the core philosophy of extending financial inclusion to those who would '*normally*' not be served by commercial banks. The tendency, however, is for commercial microfinance to be prone to rent-seeking at the expense of clients own improvement in their livelihood which would then be defying a noble proposition. Hence we define microfinance as, "a social innovation geared towards financial inclusion that employs various stakeholders to make the efforts work for the development of both MFI and clients". We observe, that many MFIs in Ghana are small run entities; often in rented premises. Therefore, to specifically define MFIs to include the provision of insurance and pension services and so on would be a tall (if not impossible then unrealistic) order. Although, this definition might be implied in all previous definitions of microfinance, this one is hands-on; suggesting that MFIs pursue an active partnership and collaboration with identifiable stakeholders to grow the institution, grow the clients, and grow the society. This proposition somewhat shifts the focus on microfinance operations from a somewhat private 'capitalist' orientation to a more 'public service' approach. While there would be the benefit of knowledge exchange, there would also be better transparency and fairness towards client progress in the jobs they do. Arguably, this might be a better way of balancing commercial interests and/with clients/social interests.

Conclusion

Perhaps no one would argue against the notion that microfinance can be a very useful apparatus in human, social, economic, political and national development. From the literature review, we can believe that microfinance's raison *d'être* is a positive, human-centered proposition. This raison d'être extends from the individual with potential, to their livelihood: self-enterprise and eventual self-worth and/or self-fulfillment. At least, that purported reason justifies support for microfinance as a development proposition. But if microfinancing cannot benefit the generality its clients, it has no basis in development. While commercialized microfinancing cannot be wished away (some advocates make a strong case for it as a basis for financial inclusion in scale and depth to low income earners), certain challenges arise: some clients seem somewhat unable to thrive with globalization etc which poses a threat to microfinancing as a development proposition. To reverse this trend, we propose responsible financing with the active collaboration of identifiable stakeholders with the local environment. Microfinance promises a win-win potion for development on capital[103]. The best way to reduce poverty for low income earners is to focus on raising their productive capacity – not the consumption capacity – of the poor. Active engagement can indeed have positive spillover structural and human development effect. Microfinance can become an important conduit for improving the lot of low income earners, operating in a large-size informal economy. Success here makes necessary contribution to the success of the current government's One District, One Factory initiative as well as Ghana's current strive for industrialization.

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