

**THE EFFECTS OF LOAN DEFAULTS ON THE OPERATIONS OF  
MICROFINANCE INSTITUTIONS (MFIs)**

**(A CASE STUDY OF SINAPI ABA TRUST – ASHANTI REGION)**

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## STATEMENT OF AUTHENTICITY

We hereby declare that this submission is our own work towards the award of a degree in BBA (Banking and Finance) and that; to the best of our knowledge, the research contains neither materials previously published by another person nor materials which have been accepted for the award of any other degree of the University College except where due acknowledgement has been made in the context.

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### Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision laid down by Christian Service University College.

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## **ABSTRACT**

This project work which is an explanatory survey was designed to assess the effects of loan default on the operations of Sinapi Aba Trust. The study seeks to come out with the means by which a Microfinance Institution (MFI) such as Sinapi Aba Trust (SAT) will reduce the level of loan default to the barest minimum (below 5%) if not to eliminate it.

The objectives of the study were, to identify the factors responsible for loan default by clients of MFIs, to identify various ways by which loan officers can ensure repayment on time (thus eliminate loan default), to recommend options MFIs could adopt to ensure on-time repayment of loans and to identify the costs of loan default to MFI operations and its implications to its sustenance.

The objectives were achieved through field survey using questionnaires and interviews by purposive sampling method to elicit information from specific staff of Sinapi Aba Trust as well as clients from the selected branches of the company.

The data gathered from the field were analysed and findings and recommendations were put forth as evidence of the objectives being achieved to conclude the project.

The research had two findings both from the FSOs and the clients. Though the clients opined some reasons for the loan default, whilst the opinions of the FSOs were held supreme over that of the clients.

In conclusion, the effects of loan default had adverse effects on the MFIs (Sinapi Aba Trust), the Financial Service Officers (FSOs), and the clients of the MFIs in their operational sustainability and viability.

We recommend that, there should be an industry database of clients, need for legal framework from the Central bank and standard monitoring system for MFIs and Clients to enhance the due diligence undertaken by MFIs.

## **DEDICATION**

We dedicate this study to the glory of God Almighty for His infinite mercies, kindness and blessings bestowed upon us throughout our years of study at Christian Service University College – Kumasi.

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# **CHAPTER ONE**

## **GENERAL INTRODUCTION**

### **1.1 Background of the Study**

Microfinance as pioneered in Bangladesh by Mohammed Yunus was to assist low-income women and men through micro-enterprises for their economic development. Growing concerns about poverty stands out in political agendas all over the world, as stubbornness of poverty even in the richest nations is being met with increasing impatience (Mwangi et al, 1998). Governments and international aid donors have been subsidizing credit to small farmers in rural areas of many developing countries. These subsidized credit from donor Non-Governmental Organizations (NGOs) made it possible for large numbers of low-income people to have access to financial services.

According to Consultative Group to Assist the Poor (CGAP, 2001) report, nearly three billion (3bn) poor people lack access to the basic financial services essential for them to manage their businesses and it is estimated that about 35% of people in developing countries live below the poverty line subrata. In Ghana, it has been estimated that the poverty level for women across all the regions of Ghana is 51% and that of men is 49% (GPRS, 2003). These people cannot grow their businesses owing to lack of access to credit. Microfinance therefore comes in to bridge this gap by evolving as an economic development approach intended to assist economically active poor through the provision of micro financial services.

Microfinance Institutions (MFIs) the world over operating primarily in developing countries like Ghana are networked with support partners such as international NGOs in developed countries to form a Global Microfinance Networks (GMNs) to offer both financial and social

intermediation to the poor aimed at reducing poverty to the barest minimum at a relatively low cost to clients.

These financial services which are below market subsidies are often siphoned off by local elites and so may not reach the poor. Access by the poor tends to be low; despite the subsidies; the cost of borrowing may be high because of widespread inefficiencies and corruption. In addition, most of the international NGOs and governments are capital constrained and can meet only a fraction of the demand for credit (Robinson, 2003).

The field of microfinance has grown substantially over time with MFIs recognizing the need to achieve financial sustainability while offering financial services to the poor through non collateralised loans (credit) in addition to other services that checks poverty in the lives of clients.

## **1.2 Problem Statement**

Policymakers throughout the world have actively tried to improve financial market in poor regions, but often with disappointing results. Against this background, microfinance emerged as an especially promising way to rethink banking institutions for poor (Beatriz and Morduch, 2005).

The business environment in developing countries are dominated by small and medium enterprises (SMEs) and self employed individuals. These categories of businesses are confronted with the problem of acquiring the necessary capital to carry out their business activities. The effect of this situation is that economic performance of these countries does not show any positive growth and therefore the lives of the populace are not improved in any way.

The provision of credit to the economically active poor clients who have no access to funds from formal banking institutions for lack of collateral among other factors has benefitted enormously from the activities of microfinance companies. Thus entrepreneurs' limitation in their quest to secure credit without the provision of property as collateral is eliminated by microfinance companies.

Microfinance Institutions (MFIs) over a couple of decades has moved from the giving of subsidized credit that depends on the benevolence of donors to a self-sustainable financial company that gives credit to its clients at a cost and to be able to recoup all funds that it gives to its clients. The repaid funds are subsequently given to other SMEs and self employed individuals as MFIs seeks to reach as many clients as possible in pursuance to the objective of alleviating poverty in society.

Repayment of loans by clients ensures sustainability of microfinance institutions and therefore default by clients to repay loans (credit) tends to affect the operations of every viable MFI. This loan default will have its consequences and implications on the operations of MFIs. The purpose of this study is to explore and unravel the loan default by clients with its consequences. It seeks to explain and analyze its implications on the operations of Sinapi Aba Trust (SAT).

This establishes the direction for this research.

### **1.3 Objectives of the Study**

The study seeks to come out with the means by which a MFI such as Sinapi Aba Trust (SAT) will reduce the level of loan default to the barest minimum (below 5%) if not to eliminate it.

The objectives to achieve these are;

- a) To identify the factors responsible for loan default by clients of MFIs.
- b) To identify various ways by which loan officers can ensure repayment on time (thus eliminate loan default)
- c) To recommend options MFIs could adopt to ensure on-time repayment of loans.
- d) To identify the costs of loan default to MFI operations and its implications to its sustenance.

#### **1.4 Research Questions**

The questions which helped in achieving the objectives of the study are;

- i) What are the causes of loan default in microfinance institutions?
- ii) What are the steps that MFIs should take to reduce loan default?
- iii) What are the costs and implications of loan default on the operations of MFIs?

#### **1.5 Significance of the Study**

Governments in developing countries, including Ghana for the past decade have been seeking for panacea to reduce poverty and improve the living standards of its people. The economies of these countries could be linked to the performance of self employed individuals as well as Small and Medium Scale Enterprises (SMEs) operating as major businesses. These businesses are confronted with a problem of mobilizing enough capital as traditional banks see them to be unattractive when it comes to credit delivery. Microfinance therefore presents itself as the best way of delivering loans because borrowers (Individuals and SMEs) are too poor to have much in the way of marketable assets.

MFIs in recent times have come in to provide non-collateralized credit to SMEs and individuals who are considered as active poor in microfinance circles. According to Otero

(1999), providing capital to the poor (individuals and SMEs) to combat poverty as an aim of micro finance, also seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

Loans disbursed to clients in the form of micro credit should be repaid on schedule. Prompt repayment is aimed at ensuring institutional sustainability and viability of MFIs. This study seeks to unveil means by which clients of MFIs will be credit worthy by avoiding loan default. Being credit worthy is equivalent to possessing a credit reserve (Baker, 1973). Poor people do not necessarily want loans now, they want the opportunity to get a loan if and when they need it (Kimenyi et al, 1978). Thus undertaking this study will undoubtedly improve the operations of MFIs such as Sinapi Aba Trust (SAT) in relation to loan disbursement and repayment on schedule.

In addition to the above, the outcome of this study would serve as a guide to MFIs to deal with the problem of loan default that has become a major set-back to their operational sustainability and viability.

Personal interest regards what has been taught and what happens on the field to build personal interest in microfinance activities.

The outcome could enhance employment possibilities as in depth knowledge into loan default may open an opportunity for others to consult the researcher to enhance their operations in this field.

## **1.6 Scope of the Study**

The study will geographically be carried out in Ashanti region using Sinapi Aba Trust (SAT) as the units of the investigation. Specific category of staff of SAT namely Head of Business,

Branch Managers, Branch Supervisors and Financial Service Officers for Individual Loans and Group Loans will be used to conduct the study.

The study also used the available information of the company between the period 2005 to 2009 (5 years) for its assessment.

### **1.7 Organisation of the Study**

The study is organized into five chapters. Chapter one titled General Introduction deals with background of the study, problem statement and objectives of the study, research questions as well as significance of the study among other things.

Chapter two titled Literature review discusses how microfinance evolved taking cognisance of definition of microfinance, microfinance in Africa and Ghana respectively. The chapter again talks about microfinance and microcredit, microfinance and poverty alleviation, rural banking and microfinance as well as best practices for loan recovery.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **Introduction**

This chapter tackles the beginning of microfinance across the continents in the world particularly given special attention to Africa and Ghana in particular, the impact of microfinance in Ghana and the strategies adopted to alleviate poverty. Much emphasis is given to literature and other works done on the same subject across the globe.

#### **2.1 Theoretical Framework**

This aspect of the study sum highlights what the literature review entails and they include the following;

- ❖ Evolution of Microfinance
- ❖ Definition of Microfinance
- ❖ Microfinance in Africa
- ❖ Microfinance in Ghana
- ❖ Microfinance and Microcredit
- ❖ Microfinance and Poverty Alleviation
- ❖ Rural Banking and Microfinance
- ❖ Best Practices / Framework for Loan Recovery

#### **2.2 Evolution of Microfinance**

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world.



Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s Jonathan Swift (1840). Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually.

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

### **2.2.1 Definition of Microfinance**

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 microenterprises. Microfinance services are provided by three types of sources:

- Formal institutions, such as rural banks and cooperatives;
- Semiformal institutions, such as nongovernment organizations; and
- Informal sources such as money lenders and shopkeepers.

Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.

According to Hulme and Mosley (1996), Wilhelm (1870), who gave the definition of the credit union, was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors, also to developing countries.

In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to nine thousand units. In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. While the goal of such rural finance interventions was usually defined in terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector, by mobilizing "idle" savings and increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive.

Asian Development Bank (2000), concludes that microfinance is the provision of financial services to the poor and low income families to expand their business and repay the money at the appropriate time. They further find that the institution of the microfinance was rooted before independence but widespread through the country in 1995 in order to achieve the 2020 millennium goal project by the then government.

Between the 1990s and early 2000s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor, often ending up concentrated in the hands of better-off farmers.

### **2.2.2 Microfinance in Africa**

Most of the finances available to the rural areas in Africa are through Microfinance, this method was known as traditional savings in most of the communities across the continent.

According to Aghion and Morduch, 2003, the African experience suggests that MFIs have built on pre-existing informal sector mechanisms (among the many examples are *susus* and *tontines*) to create viable channels for capital infusions from formal sector banks, donors, and governments. As a result, deposit taken MFIs, informal microfinance institutions and credit-only MFIs have all developed increasingly close ties with full-fledged commercial banks and other non-bank financial institutions in the formal sector. Banks and MFIs complement each other well by servicing substantially different client bases. Banks lend and collect deposits mostly from a limited formal private sector in Africa and to the government, while MFIs service poor and rural households, and small entrepreneurs often in the informal sector.

With the increasingly closer linkages between commercial banks and MFIs, the prospects for enhancing financial deepening have improved. Both commercial banks and MFIs benefit

from a closer relationship. MFIs may increase their effectiveness in having access to financial services that facilitate their liquidity management, while banks expand their client base by working with MFIs in Africa. Below is the nature and implications of such interactions, supported by evidence from the experience of selected countries in Africa.

- MFIs reap benefits as clients - depositors and borrowers of commercial banks. First, as observed in Guinea and Benin, commercial banks typically manage MFIs' deposit accounts, and sometimes, provide them with liquidity management services, for example emergency credit lines to cover cash shortfalls, hence reducing the risks associated with irregular cash flows. Second, extended credit facilities also allow MFIs to expand their services. In Guinea, while MFIs are currently using liquidity management services provided by commercial banks including one of them having access to an emergency credit line banks have been cautious in extending credit lines, given the risk that the failure of MFIs spills over to commercial banks. Conversely, these risks are to some extent mitigated by the additional benefits of interaction between MFIs and the banks, which include (a) the opportunity given to banks to expand their portfolio of clients beyond a usually highly concentrated clientele, and (b) the monitoring of MFI clients by commercial banks. The experience of Guinea supports this conclusion, although the interactions between MFIs and banks are in an early phase.

MFIs and commercial banks work together in providing financial services. In a number of African countries, banks and MFIs have successfully cooperated in extending their outreach and achieving economies of scale. Branch network sharing is seen as effective in servicing a larger client base while containing costs. In Guinea, banks are looking at possibilities to use the network of MFIs to expand credit to large

rural clients. In Tanzania, the example of the CRDB developing banking relationships with savings and credit cooperatives to channel funds for micro-lending is illustrative. Cooperation also entails channeling credit from banks and MFIs to clients with obvious business synergies. The NMB of Tanzania is developing relations between credit to its large corporate clients and credit to micro-enterprises that supply inputs and distribute the products of the former. The NMB lends to micro-enterprises to finance their purchases and inventories, and provides large corporate clients with collection and payment services to and from micro-enterprises.

- The links between MFIs and banks provide a platform for strengthening the links between the formal and informal sectors of the economy. While small entrepreneurs with no credit history are usually excluded from commercial bank credit, they constitute a profitable business segment for MFIs. Those entrepreneurs could eventually graduate from micro-credit to conventional bank loans, either by developing successfully into sizeable businesses or by building reputation through repeated borrowing and establishing a strong record of loan repayment, even though barriers to entry into the conventional banking sector for small entrepreneurs would still limit the possibilities of graduation to the conventional banking sector.

With MFIs linking up with banks, the supply of loan able funds to previously underserved areas of the economy and the number of small borrowers with access to credit are likely to increase. Some might argue that this would lend to increased competition and better terms for loans to small borrowers. Unfortunately, however, this may not necessarily happen. The expansion of credit to new borrowers may entail increases in default risk, loan administration and monitoring costs, strategic

collusion among informal lenders (to avoid a costly price war), and contamination of the pool of borrowers for lenders who are poor at screening out the risky ones. All these potential risks suggest that the cost of borrowing may not fall, at least in the early stages of growth in the microfinance sector. This being said, the cost of credit provided by formal MFIs is generally much less than that provided by informal lenders (such as money lenders).

- In Benin, following the financial rehabilitation programs of 1989-93 and that launched in 1999, many SLCs were able to substantially expand their deposits and loan portfolios, recover their nonperforming loans, and achieve break-even or positive net profits in their current operations.
- In Ghana, the performance in the rural microfinance (RMF) sector is reported to have improved in recent years. The combination of;
  - (i) a more commercial approach,
  - (ii) a restructuring of the sector through re-capitalization and capacity building, and
  - (iii) Strengthened regulation contributed to reduce drastically the proportion of distressed RCBs. At the level of S&Ls and credit unions, weak financial performance, mostly due to a welfare focus and policies of low interest rates, was reportedly improved through a greater commercial focus supported by better management and financial reporting. From 1996 to 2001, the proportion of “unsatisfactory” credit unions declined from 70 percent to 60 percent and that of those in the worst categories from 42 percent to 15 percent.

- In Guinea, the four existing MFIs are reported to have strengthened their financial performance over the period 1997–2003. They achieved this by lowering the share of non-performing loans (NPLs) in their total credit and raising their lending rates,

### 2.2.3 Microfinance in Ghana

The informal credit sector has been very active in Ghana and covers a range of activities known as *susu*, including individual savings collectors, rotating savings and credit associations (ROSCAs), and savings and credit “clubs” run by an operator. These institutions provide a rich source of experience for the development of microfinance services—focusing mostly on savings products. The following four different types of *susu* institutions have influenced the operations of MFIs:

***Susu* collectors** offer a saving vehicle by collecting daily amounts voluntarily saved by their clients, which they returned at the end of the month, minus one day’s amount as a commission. The *susu* collector function was expanded by licensed MFIs with “Mobile Banking” services working as a collector going locally to mobilize savings and offering additional services, such as promised loans (proposed for example by Nsoetreman Rural Bank and First Allied S&L) and life insurance benefits (introduced briefly by the State Insurance Corporation in the 1980s).

***Susu* associations** are either (i) rotating (ROSCAs), that is, they collect savings from their members and allocate them to each member in turn, or (ii) accumulating, which allow regular contributions to be accumulated, to cover the lump sum costs of such special future events as funerals.

**Susu clubs** combined the above two systems, operated by a single agent. Members commit to save a pre-defined amount over the medium-term (50- to 100-week cycles) and pay commissions on each payment and fees when they are advanced the targeted amount before the end of the cycle.

**Susu companies** are more recent (late 1980s) and registered. In addition to savings collected using traditional *susu* collectors, they provide loans after a minimum saving period. MFIs have used *Susu* associations, clubs, and companies to expand their services. In these schemes, *Susu* club operators are clients of licensed financial institutions, attracted by safe instruments where they can place mobilized savings, and by lending facilities that they can use to offer more advances to their own clients. On the credit side, licensed MFIs may capitalize on local informal agents' intimate knowledge of their clients. A pilot program supported by RCBs and S&Ls provides funds to *susu* collectors who then on-lend to their own-clients. These interactions have resulted in greater effectiveness in reaching lower income brackets and women. In Ghana, the two groups of clients account for between 65 to 80 percent of the clients of those *susu* schemes.

## **2.3 Microfinance and Microcredit**

Meanwhile, microcredit programs throughout the world improved upon the original methodologies and defied conventional wisdom about financing the poor. First, they showed that poor people, especially women, had excellent repayment rates among the better programs, rates that were better than the formal financial sectors of most developing countries. Second, the poor were willing and able to pay interest rates that allowed microfinance institutions (MFIs) to cover their costs. 1990s These two features - high repayment and cost-recovery interest rates - permitted some MFIs to achieve long-term



sustainability and reach large numbers of clients. Another flagship of the microfinance movement is the village banking unit system of the Bank Rakyat Indonesia (BRI), the largest microfinance institution in developing countries. This state-owned bank serves about 22 million micro savers with autonomously managed microbanks. The microbanks of BRI are the product of a successful transformation by the state of a state-owned agricultural bank during the mid-1980s.

The 1990s saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. The microfinance sector blossomed in many countries, leading to multiple financial services firms serving the needs of micro entrepreneurs and poor households. These gains, however, tended to concentrate in urban and densely populated rural areas.

It was not until the mid-1990s that the term "microcredit" began to be replaced by a new term that included not only credit, but also savings and other financial services. "Microfinance" emerged as the term of choice to refer to a range of financial services to the poor, that included not only credit, but also savings and other services such as insurance and money transfers.

ACCION helped found BancoSol in 1992, the first commercial bank in the world dedicated solely to microfinance. Today, BancoSol offers its more than 70,000 clients an impressive range of financial services including savings accounts, credit cards and housing loans - products that just five years ago were only accessible to Bolivia's upper classes. BancoSol is no longer unique: more than 15 ACCION-affiliated organizations are now regulated financial institutions.

Today, practitioners and donors are increasingly focusing on expanded financial services to the poor in frontier markets and on the integration of microfinance in financial systems development. The recent introduction by some donors of the financial systems approach in microfinance - which emphasizes favorable policy environment and institution-building - has improved the overall effectiveness of microfinance interventions. But numerous challenges remain, especially in rural and agricultural finance and other frontier markets. Today, the microfinance industry and the greater development community share the view that permanent poverty reduction requires addressing the multiple dimensions of poverty. For the international community, this means reaching specific Millennium Development Goals (MDGs) in education, women's empowerment, and health, among others. For microfinance, this means viewing microfinance as an essential element in any country's financial system.

#### **2.4 Microfinance and Poverty Alleviation**

Many methods have been adopted by government and Non governmental agencies to tackle the poverty alleviation pandemic in Africa and developing countries around the world. Through microfinance a lot of strategies have been adopted to eradicate this dilemma or to reduce the effects of poverty on the less privilege and the disadvantage. Some of these policies are adopted to create the awareness and to provide capital for small enterprises to start in order to engage the mass of the people who have been struck by poverty to find a means of living. Some of the policies and strategies adopted worldwide include the following:

## **1. Engage the Informal Economy**

Up to 80% of people in developing countries derive their incomes from the informal sector, thus the need for good financial mechanisms to support wealth creation and financial services in this sector,

Fredham et, al (2001). Most of the urban population operates in the informal economy without security of tenure and without formal employment. The population is afflicted by low human capital. Employment is heavily informal, in services and small workshops, and in domestic food processing Achim (2004). Equally important are measures to support the informal sector, where most of the urban poor work in low paid, low productivity, and low security jobs. To facilitate the shift into the formal sector, local authorities should adjust their laws and regulations to lower the costs and increase the benefits for people to formalize their enterprises. They should also provide assistance to small enterprises to upgrade skills and increase access to productive resources and market opportunities. Access to quality financial services, in particular microfinance, to bring informal enterprises into the formal economy is critical.

## **2. Grow Domestic Deposits: Mobilize Micro-saving**

Cost effective, secure and accessible micro saving services feed impoverished, cash-strapped economies, and improve the lives of those living in poverty.

Contrary to some beliefs, low-income people save their money. In fact, their savings represent a higher portion of their net assets than those of their counterparts in society's upper income segments, Johnson et al (1997). Even in the poorest countries, such as Bangladesh, research indicates that poor households save an average of more than \$800USD per year. With access to well-designed savings products, low-income people can accumulate wealth.

When aggregated and invested properly, these small, sometimes seemingly insignificant amounts can add fuel to country economic growth. Morduch (1999), indicates that Microfinance promotes not only credit, but also inculcates savings that accumulate assets for poor people and benefit country reserves. A low saving rate is one of the serious resource constraints developing countries face. “With low domestic saving there are limited possibilities for indigenous private investment.

With a low saving rate, the amount of capital per person declines and this leads to economic decline and even more poverty. The findings state that saving rates are low in impoverished countries and rise with per capita income is well established. Rutherford et al (1997), found that a big push of aid-supported investment that puts a country on a path of increased savings and self-propelling growth is far more efficient than low quantities of aid that do not change the fundamental growth potential of the economy.

### **3. Invest in Women**

According to Hulme and Mosley (1996), Because of the interconnection of financial power, poverty and women, microfinance has an active role in improving economic equality. Increased economic power enables women to improve other areas of their and their children’s lives. Microfinance can support voluntary approaches to empower women with skills, literacy, numeracy, and economic rights to engage in off-farm employment.

Zeller and Sharma (2000), recognizes that Girls and women usually receive less schooling than boys and men, have poorer access to health care, are at greater risk of contracting sexually transmitted diseases, including HIV, and are less able to start businesses, obtain credit, or enter higher-level occupations.

In addition, women have little ownership rights over assets. Yet, ownership and control over assets such as land and housing provide economic security, incentives for taking economic risks which lead to growth, and important economic returns including income.

To improve women's economic opportunities, governments need to guarantee women effective and independent property ownership and access to security rights, especially land and housing, both in law and in practice. Women's rights to own and accumulate assets are enhanced by their access to financial tools, such as microfinance, for housing renovation and development. Furthermore, property rights can impact women's ability to leverage their assets through credit and invest in opportunities to grow their wealth.

#### **4. Facilitate National and International Remittance Flows**

Bank Rakyat Indonesia (BRI), (1990) indicated that national and international remittances and payment systems as important financial tools for those living in poverty are highlighted as key drivers to achieve the Millennium Development Goals.

These remittances can increase household income and saving, especially if they can be channeled through a formal financial system, as is now beginning to happen in some countries in Latin America and Asia.

#### **5. Develop Local Private Sectors and Invest in Innovation**

According to Hulme and Mosley (1996), microfinance is the progenitor of local private sector development. Microfinance feeds small and medium enterprise development, both propelling the growth of micro enterprises but also fueling the expansion of suppliers and vertical infrastructure needed by larger businesses. Because microfinance creates increased wealth for

low-income individuals, it also creates new consumers and markets for businesses of all sizes.

Bark et al, (2005), found out that in addition, governments should adopt policies and invest in infrastructure that stimulates small (micro) and medium-size businesses, improves access to credit and other forms of capital, increases participation in international trade, and promotes the integration of regional markets.

In the charter of Governance to Achieve the Millennium Development Goals (2000): it was an undisputable fact that private sector requires functioning, competitive markets for both inputs and products. Well developed financial markets, which channel resources to entrepreneurs, help reduce the cost of and increase the access to capital. In many countries, the formal banking sector needs to be strengthened through regulatory reform and increased accountability of financial institutions.

The informal economy needs government support in several ways. The government can enable easier access to financial capital by simplifying rules for collateral, increasing flexibility for informal entrepreneurs.

Rabobank International, a policy framework for the sustainability of microfinance has also worked in Uganda and Tanzania and developed financial instruments (risk management tools such as swaps and derivatives) to help small farmers protect themselves against price fluctuations.

## **6. Improve Slum Conditions**

Johnson and Rogaly (1997), hinted that Microfinance increasingly supports purchasing living space, home improvement and home building in slums through special savings and loan products. It generates wealth for slum dwellers, enabling them to obtain improved housing.

Models must engage those living in poverty in the solutions to poverty eradication and provide them with the financial tools to achieve their goals. Without the support and participation of the poor, such resettlement programs can lead to the mere relocation of slums or much worse. Community organizations can help mobilize the resources of the urban poor to co-finance improvements in housing and investments in basic urban services (including financial, Sugianto (1998).

## **7. Develop Rural Areas and Invest in Food Output**

Financial sector access and microfinance are essential for growth in impoverished rural areas, Khander (1998).

The importance of developing and diversifying rural economies is clearly a top priority. First, it (a strategy to achieve the MDGs) would target a rise in rural productivity, a Green Revolution to raise food output. This would accomplish several important objectives and trigger a structural change in the economy. It would enable farmers to feed their families. It would provide low- cost food for the rest of the economy. It would accelerate the transition to commercial agriculture and to urbanization (as fewer households are engaged in food production). The urbanization and movement of human resources into nonagricultural productive sectors would diversify the economy and the export base. Financial services to rural populations are critical to enabling this to happen.

Remember that these (rural) farmers also constitute the bulk of private sector economic activity in many developing countries, so improving their economic lot will make a huge difference to their countries' prospects for long-term economic growth.

Recommended interventions to jumpstart rural development stress access to microfinance as a key requirement to increase investment in rural development and it is further stated that the extension of the formal banking system and provision of microcredit services is a requirement for sustained growth and rural development.

Frank (1999), also finds that to further improve farmers' ability to market their products and access markets, national strategies can focus on building storage facilities, encouraging networks of agro dealers, and improving credit and savings facilities. All these investments will succeed when smallholder farmers and rural communities are empowered to establish their own institutions for example, farmer field schools to gain access to new agricultural technologies, village banks to gain access to financial services, and farmers' associations to negotiate with market intermediaries.

Equally important are measures to improve access to low-cost transport services. Examples include providing access to credit, ensuring efficient transport markets through legislation, lowering entry costs into the transport market, and improving supply of low-cost vehicles, bicycles, and other means of transport.

Robinson (2003), asserts that "if it were widely available, institutional commercial microfinance could improve the economic activities and the quality of life of hundreds of



millions of people in the developing world. However, it is generally agreed that microcredit given to those of the poor who do not have a capacity to repay can increase their poverty.

The extensive reliance of poor households on informal arrangements reflects the importance of financial services for their lives.

Developing countries in the Region have used microfinance services to reduce poverty. About 21 percent of the Grameen Bank borrowers and 11 percent of the borrowers of the Bangladesh Rural Advancement Committee, a microfinance NGO, managed to lift their families out of poverty within about four years of participation. These services also had a significant positive impact on the depth (severity) of poverty among the poor. Extreme poverty declined from 33 percent to 10 percent among Grameen Bank participants, and from 34 percent to 14 percent among Bangladesh Rural Advancement Committee participants. Without exclusively targeting the poor, the unit desas of the Bank Rakyat Indonesia (BRI) have also assisted “hundreds of thousands of households in lifting themselves out of absolute poverty over the past decade. A 1988 sample survey of unit borrowers showed that microcredit has had a major impact on their families' standards of living. The study estimated that net household incomes of borrowers increased by about 76 percent and employment increased by 84 percent with three years of program participation. The studies have, in general, shown that microfinance services have also had a positive impact on specific socioeconomic variables such as children's schooling, household nutrition status, and women's empowerment, Johnson and Rogaly (1997).

Microfinance institutions (MFIs) have also brought the poor, particularly poor women, into the formal financial system and enabled them to access credit and accumulate small savings in financial assets, reducing their household poverty. However, researchers and practitioners

generally agree that the poorest of the poor are yet to benefit from microfinance programs in most countries partly because most MFIs do not offer products and services that are attractive to this category. Thus, to increase the overall impact of microfinance on poverty reduction, it is essential to extend a wide range of services on a continuing basis to the poor who are still excluded from the benefits of microfinance.

## **2.5 Rural banking and microfinance**

Inadequate investments in social intermediation particularly in the rural areas has enforce the youth into moving to the urban centers in search of work. Most of the agenda for the evolution of the rural banking was to provide finance for the poor and particularly those in the agric sector to improve productivity to help boost the economy in the rural setting. In Ghana, rural banking is the main backbone supporting the microfinance scheme to reduce the poverty level in the rural areas. Some of the rural banking operating in the rural areas as part of the social responsibility help put in place social and entertainment centers for communities within their catchment area.

Rural banking has a strong history in terms of providing financial assistance to the rural folks and educating the mass on the use of banking services and to access the facilities available for them to take advantage of.

Microfinance has its main objective of improving the lives of the less privileged in the society especially in the rural settings of the world and is in accordance with the operations of the rural banking system. Most of the rural banking across the country are solely responsible for providing these assistance to the rural folks for expansion of their business.

The low level of social development, a distinctive characteristic of the poor in the Region, is a major constraint on the expansion of microfinance services on a sustainable basis. This is particularly true with respect to the poorest, women in poor households, poor in resource-poor and remote areas, and ethnic minorities. A vast amount of financial and human resources is required to address this issue.

Private sector MFIs are not likely to invest in social intermediation given the externalities associated with such investments. The development of sustainable microfinance to reach a large segment of the potential market requires supporting social intermediation on a large scale is based on the operations of the rural banking.

## **2.6 Best practices/ Framework for loan recovery**

Microfinance operations continue to provide valuable lessons. The lessons learned during the last decade include the following as it serves as the framework for loan recovery:

- Adoption of the financial system development approach is the key to achieving sustainable results and to maximizing development impact. This approach emphasizes an enabling policy environment, financial infrastructure, and the development of financial intermediaries that are committed to achieving financial viability and sustainability within a reasonable period and that can provide a variety of financial services, not just credit, to the poor.
- Microfinance clients are more concerned about access to services that are compatible with their requirements than about the cost of the services.
- Given the diversity of demand for financial services, a broad range of institutional types is required to expand the outreach.

- Strong retail institutions committed to outreach and sustainability are essential for extending the permanent reach of financial services and to have a significant impact on poverty reduction. Thus, building the capacity of institutions with a commitment to reach the poor is vital.
- Financial institutions committed to provide microfinance services in most DMCs require considerable technical assistance for capacity building. This is particularly true for institutions that target potential clients in resource-poor areas and the poorest of the poor.
- The demand for savings services by poor households and microenterprises is as strong as or stronger than the demand for credit. Expansion of the outreach of savings services can have a potentially significant impact on both institutional sustainability and poverty reduction.
- Because microfinance is primarily targeted to the poor who are disadvantaged, social mobilization is necessary to introduce them to a formal or semiformal, market-oriented institutional environment. This is particularly true for poor women and the poorest of the poor. It is important, however, to distinguish between financial intermediation and social intermediation in designing support programs.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **Introduction**

This chapter covers the research methodology of the study and the background of Sinapi Aba Trust, case study area.

#### **3.1 Research Approaches and Strategies**

There are two conventional approaches to conduct research namely Qualitative research approach and Quantitative research approach.

These two approaches were employed to undertake this research to help provide richer analysis.

For the purpose of this study, Case Study research strategy was adopted to ensure a detailed investigation of groups within an organization with a view to providing an analysis of the context and processes involved in the phenomenon under study.

#### **3.2 Data Collection**

There are two sources of data namely primary and secondary data and both were employed in this research.

Primary data was sourced from selected staff as well as clients of Sinapi Aba Trust through the use of questionnaire and interview.

Secondary data was obtained from the Information Technology Department at the head office after permission has been sort from the management of Sinapi Aba Trust.

### **3.2.1 Questionnaire Design**

The questionnaires would be administered to Financial Service Officers, Branch managers and their Supervisors to elicit information from them.

The questionnaires were designed to provide both qualitative and quantitative information on the prevailing effects of loan default on MFIs activities and to allow appropriate conclusions and recommendations to be derived. The questionnaire covered the following major areas;

- The background and experience of loan officers, supervisor and branch managers of SAT.
- The company' s structure for approving and disbursing loans.
- The policy of the company in writing off loans.
- The company' s performance on the value of loans disbursed/recovered over a period.
- The reasons for loan default by clients of MFIs.

### **3.2.2 Interview**

Questionnaires were drafted which were used to interview the 300 clients, 50 from each of the 6 branches of Sinapi Aba Trust selected for the study. This is because most of them were illiterates and semi-illiterates due to their inability to read and write.

## **3.3 Sampling**

### **3.3.1 The population and sample of the Study**

The target population of the study is the Financial Service Officers (FSOs), Branch Managers Branch Supervisors, Loan/Credit Managers as well as clients Sinapi Aba Trust. The sample for the study was taken from selected branches of Sinapi Aba Trust and their clients in Ashanti region.

Purposive random sampling method was used as it is much concern with contacting the specific people needed to answer some questions of in order to achieve the objects of our study.

### **3.3.2 The Method of Data Analysis**

Statistical Package for Social Scientist and Microsoft Excel software were used in processing primary and secondary data obtained through questionnaires as well as those obtained from the archive of the Sinapi Aba Trust.

In analyzing the data, frequency tables was used as the analytical techniques. Qualitative explanations were made out of quantitative data to give meaning to them as well as explain their implications.

### **3.4 History of Sinapi Aba Trust**

Sinapi Aba Trust (SAT) is an autonomous private, Christian, Non-Governmental Organization (NGO). It was established and duly registered in May 30<sup>th</sup> 1994 under the company's code 1963 (Act 179) as a company limited by guarantee to support the poorest of the economically active poor to enhance their lives through microfinance and basic business training.

The main aim of SAT is to give out loans to serve as Mustard seed" through which opportunities for enterprise development and income generation are provided to the economically disadvantaged to transform their lives. It is also dedicated to providing consulting, training and research services which build on its 14 years of experience providing microfinance and related services throughout Ghana since its establishment.

Since its establishment, SAT has accumulated tremendous experience and has distinguished itself as one of the best institutions in the industry. After ten years of microfinance services to the nation the Trust, in partnership with other international stakeholders – Opportunity International and OIKO Credit, converted three of SAT branches, Accra, Kumasi and Techiman in the Brong Ahafo region into a Savings and Loans Company called Opportunity International – Sinapi Aba Savings and Loans Limited (OI-SASL): currently known as Opportunity International Savings and Loans.

Again SAT is the majority shareholder in Amantin and Kasei Community Bank, one of the best community banks in the Ashanti region. The operations of the Trust now cover 40 branches in all the ten (10) administrative regions of Ghana with over 85,000 clients being served.

The Logo of Sinapi Aba Trust epitomises the methodology and core values of the organization. “Sinapi Aba” is the local name of the biblical mustard seed (Matt.13:31-32).

The Tree: It is a mustard tree. In the biblical quotation above, the Mustard seed (small of all seeds) when sowed and nurtured grows into a very big tree, so that the birds of the air come lodge in the branches thereof. This reflects the size of loans given to clients. It is the belief that, as the money (irrespective of its size) is invested into a viable business and the necessary managerial skills employ, it could become very vibrant and grow to the extent that, more hands would have to be employed to meet the demand. By so doing, opportunities for enterprise and income generation would have been provided to the economically disadvantaged and some lives would definitely be transformed.



The green colours: As a tree it owes its colour to the chlorophyll (green Colouring matter of plants found in the leaves, which is the basis for the manufacture of its food. This judges our viability and sustainability.

### **3.5 The Mission and Vision of Sinapi Aba Trust**

The mission is to serve as a *Mustard Seed* through which opportunities for enterprise development and income generation are given to the economically disadvantaged in society.

The vision is to seek to become an institution dedicated to the building of a nation under the Almighty God where the strong help the weak and all people have the dignity of providing for themselves, their families, their church and their community”.

#### **3.5.1 The Objectives of Sinapi Aba Trust**

To enable SAT to achieve its noble mission, the following key objectives have been established:

- To provide financial services or credit needs to small and micro business ventures;
- To contribute positively to poverty alleviation through micro-enterprise stimulation and job creation for increased income among the poor;
- To fill the vacuum created by the formal sector Commercial Banks and finance companies in administering credit and financial services to small and micro enterprise.
- To provide the require Business Management Training for micro entrepreneurs to enhance their gradual growth from the micro level to the macro level.

### **3.5.2 The Core Values of Sinapi Aba Trust**

SAT's core values governing its operations are:

- **Respect:**

Our respect for one another compels us to value fully and affirm the dignity and uniqueness of each client. This respect is also the foundation for our relationship with our client's communities and our relationship with others involved in our work – donors, creditors, colleagues and fellow members of the network.

- **Commitment to the Poor and clients:**

We focus our energy and efforts on our clients, their families and their communities. Their business needs and expectations determine the services we provide and their wellbeing inspires what we do.

- **Integrity:**

We commit to integrating actively what we believe with what we do. We do the right things for the right reasons, whether or not anyone will know.

- **Stewardship:**

We commit to integrating actively what we believe with what we do. We are committed to being stewards of our resources, our clients and their families.

### **3.6 The Operational Procedures of Sinapi Aba Trust**

Sinapi Aba Trust (SAT) extends loans/credit facilities exclusively to micro and small enterprises with the view of supporting the development of poor and deprived entrepreneurs.

The lending facilities are extended to:

- Individual client;
- A well constituted credit-seeking group called Trust Bank and
- A miniature credit group called “Solidarity groups”

Operations are as close as possible to the location of the target group. SAT also maintains good performance standards by engaging high caliber personnel who are very committed to the course of the organization.

Conditions and procedures for extending credit to clients are more simplified and essentially include the following:

- An existing business for which the fund is being sought.
- A regular cash-flow from the business for which the loan is being sought;
- A guarantor and two referees or witnesses in the case of individual loan; and group guarantee in the case of group loans.

Sinapi targets poor entrepreneurs through two main loan methodologies: Group and Individual Loans.

### **Trust Banks**

The Trust Bank methodology is a development-intensive group lending methodology designed to cater for the poorest micro-entrepreneurs. The small loan amounts offered attract only the smallest businesses, typically owned by poor women, with household incomes well below the poverty line. Clients are organized into groups averaging 15 members requiring the mutual cross-guarantee of all group members.

### **Solidarity Groups**

Solidarity Groups are designed for successful matured trust bank clients who desire a smaller group atmosphere. Solidarity Group loans, like Trust Bank loans require the mutual cross-guarantee of all group members.

## **Individual System**

Individual system is designed for slightly larger businesses with greater capital needs to help grow their businesses. This method allows individual small and micro entrepreneurs to access loan from the institution.

SAT has also incorporated within its Trust Bank and individual loan methodologies the capacity building concept as part of their transformation programme. SAT gives modest training especially to its clients in the area of:

- Entrepreneurial skill
- Credit acquisition and wise use of credit
- Basic accounting principles and savings
- Business records keeping
- Good customer care among others.

## **CHAPTER FOUR**

### **PRESENTATION OF FINDINGS AND DISCUSSIONS**

#### **Introduction**

This chapter is devoted to graphical presentation, analysis and discussions of the data obtained from the field on the services of Sinapi Aba Trust to the clients. Different sets of questionnaires were analyzed; one set captures on the stakeholders of the transaction business of Sinapi Aba Trust, which includes Individual Loan Officers and Group Loan Officers. The second set was for the branch managers for the selected areas of the Sinapi Aba Trust. In all forty two (42) questionnaires were administered of which twelve (12) were for Branch Managers and Supervisors, and thirty (30) for Loan officers of Sinapi Aba Trust. Three hundred (300) clients from six branches were interviewed and comprehensive secondary data was collected from the management of the Trust which includes the operations of their activities over the years under study.

#### **4.1 Results of the positions of Loan Officers ( FSOs )**

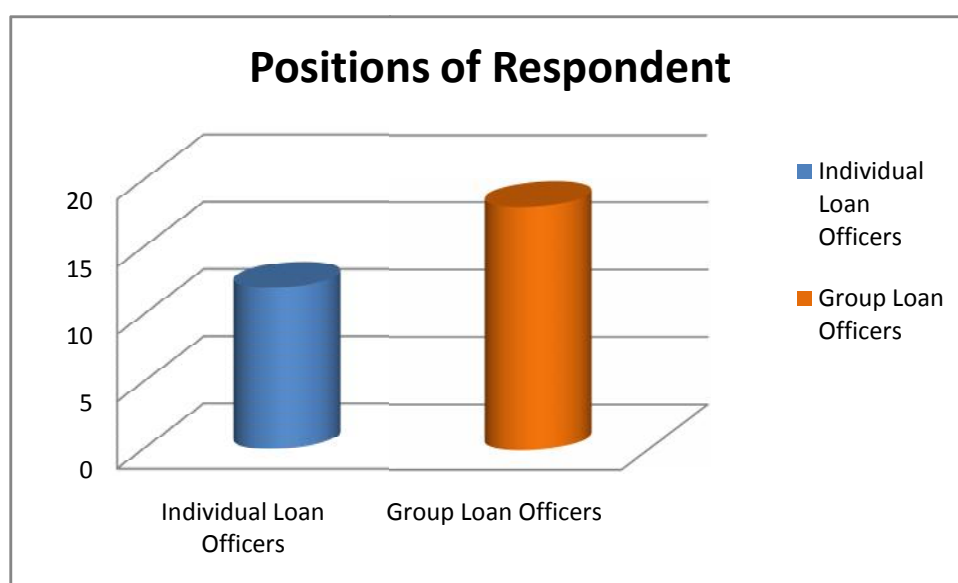
This study encompasses thirty (30) officers of the Sinapi Aba Trust, of which it includes Individual Loan Officers and Group Loan Officers, taking from six (6) branches, five (5) from each branch which consist of two (2) individual loan officers, and three (3) group loan officers. The figure below shows background and positions of the workers of the Sinapi Aba Trust.

**Table 4.1 Positions of Respondents**

Positions of Respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Individual Loan Officers	12	40.0	40.0	40.0
	Group Loan Officers	18	60.0	60.0	100.0
	Total	30	100.0	100.0	

Sources: Field Survey, 2012

**Figure 4.1 Positions of Respondents**



It is exposed from table 4.1 that 40% of the respondents are individual loan officers, who deals with the clients on individual basis, 60% are group loan officers, whose dealing requires that beneficiaries come together to form groups in their various locality for transactions to be effected.

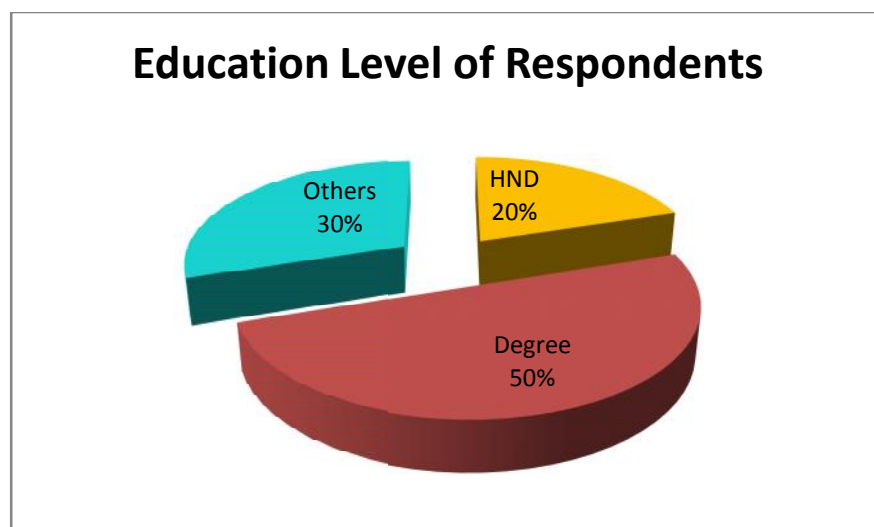
## 4.2 Results on Educational Level of Loan Officers ( FSOs )

**Table 4.2 Educational Level**

Educational Level of Respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	HND	6	20.0	20.0	20.0
	Others	9	30.0	30.0	50.0
	Degree	15	50.0	50.0	100.0
	Total	30	100.0	100.0	

**Sources: Field Survey, 2012**

**Figure 4.2 Educational Levels of Respondents**



**Sources: Field Survey 2012**

The educational level of the officers is important involving a combination of Individual Loan Officers and Group Loan Officers. Figure 4.2 above shows that, 50% of the officers have acquired degree, 20% holds Higher National Diploma (HND), 30% holds other degrees and certificates. This is an indication of a well prepared staff in terms of education of Sinapi Aba Trust.

### 4.3 Working experience of Loan Officers (FSOs )

The results show the number of years the officers have worked as staff of Sinapi Aba Trust in a group of five years intervals as indicated in a table and a histogram below.

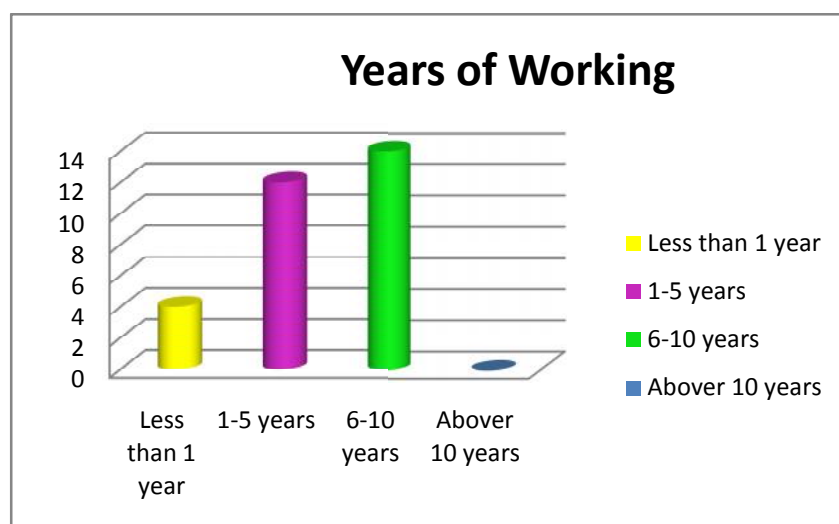
**Table 4.3 Years of Working**

How long have you been working with SAT		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	4	13.3	13.3	13.3
	1-5 years	12	40.0	40.0	53.3
	6-10 years	14	46.7	46.7	100.0
	Above 10 years	0	00.0	00.0	100.0
	Total	30	100.0	100.0	

**Sources: Field Survey, 2012**

Table 4.3 point out that, the majority of the officers have work between 6-10 years with 46.7% follow by 40% for working between 1-5 years, none of the respondents has work for more than 10 years and only 4 loan officers thus 13.3% have work for less than a year.

**Figure 4.3 Period of Working relationships with Sinapi Aba**



**Sources: Field Survey 2012**



Table 4.3 and figure 4.3, indicates that most of the respondents have work with Sinapi Aba between 1 to more than 10 years, cumulatively having 86.7%. In relation to the above findings, it is observed that the demographic background of the respondents is rich as to the operations of Sinapi Aba Trust.

#### 4.4 Results on the Operations of Sinapi Aba Trust

This looks at the primary activities undertaken by the Loan Officers which involves disbursement of loan to clients.

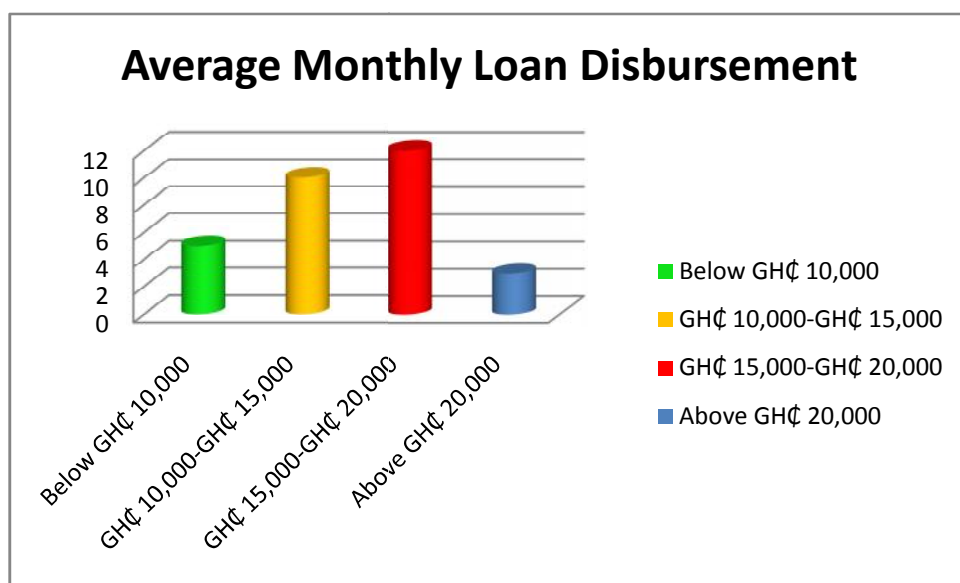
The table and figure below presents the average monthly loan disbursement by Loan Officers to clients.

**Table 4.4 Average Monthly Loan Disbursement**

Average Monthly Disbursement of Loan		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below GH¢ 10,000	5	16.7	16.7	16.7
	GH¢ 10,000- GH¢15,000	10	33.3	33.3	50.0
	GH¢ 15,000- GH¢20,000	12	40.0	40.0	90.0
	Above GH¢ 20,000	3	10.0	10.0	100.0
	Total	30	100.0	100.0	

Sources: Field Survey, 2012

**Figure 4.4: Average Monthly disbursement of Loan.**



**Sources: Field Survey 2012**

Table 4.4 that designates the average monthly disbursement shows that majority of the Loan officers (FSOs) disburses between GH¢15,000 – GH¢20,000 which represents 40% of the entire average monthly disbursement.

Clearly from figure 4.4, it shows that most of the FSOs disbursed more than GH¢ 10,000 to clients within each month. This gives Sinapi Aba the edge as it is able to disbursed huge sum of loan to clients to facilitate the business activities in their areas of operations. Moreover, only 3 FSOs which represents 10% are able to disburse more than GH¢ 20,000 monthly.

#### **4.5 Results on Annual Target Portfolio for Loan Officers**

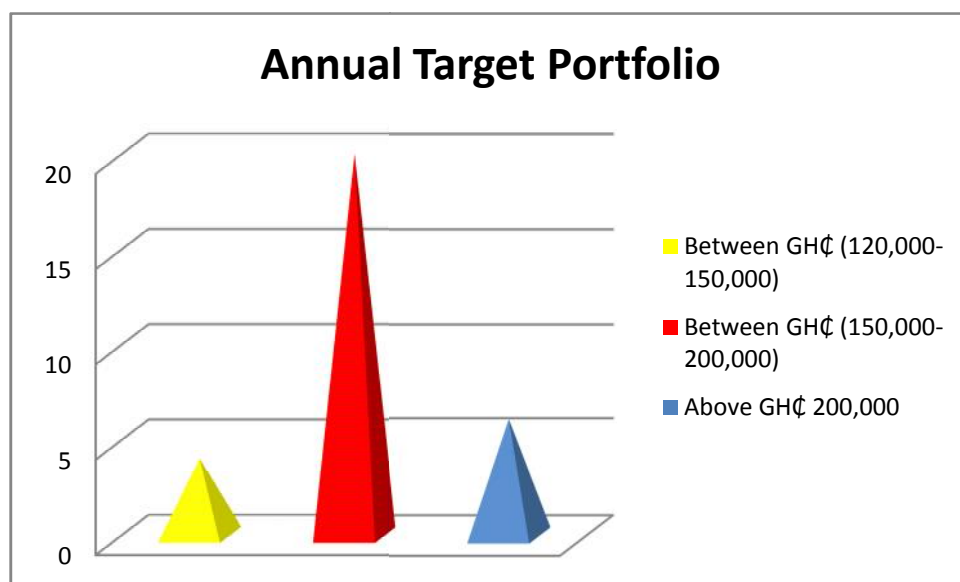
This deal with the annual target given to both individual and group loan officer with regards to loans they are expected to disburse in a year. The results presented below shows the annual target portfolio of the officers.

**Table 4.5 Annual target Portfolio**

Annual Target Portfolio		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Between GH¢( 120,000-150,000)	4	13.3	13.3	13.3
	Between GH¢ ( 150,000-200,000)	20	66.7	66.7	80.0
	Above GH¢ 200,000	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

Sources: Field Survey, 2012

**Figure 4.5 Annual Target Portfolio**



Sources: Field Survey 2012

Table 4.5 clearly shows that the targeted annual portfolio varies from loan officers. Most of them have a target of between GH¢150,000 – GH¢ 200,000 which represents 66.7% of the

total respondent, while others also have target above GH¢ 200,000 which represents 20%.

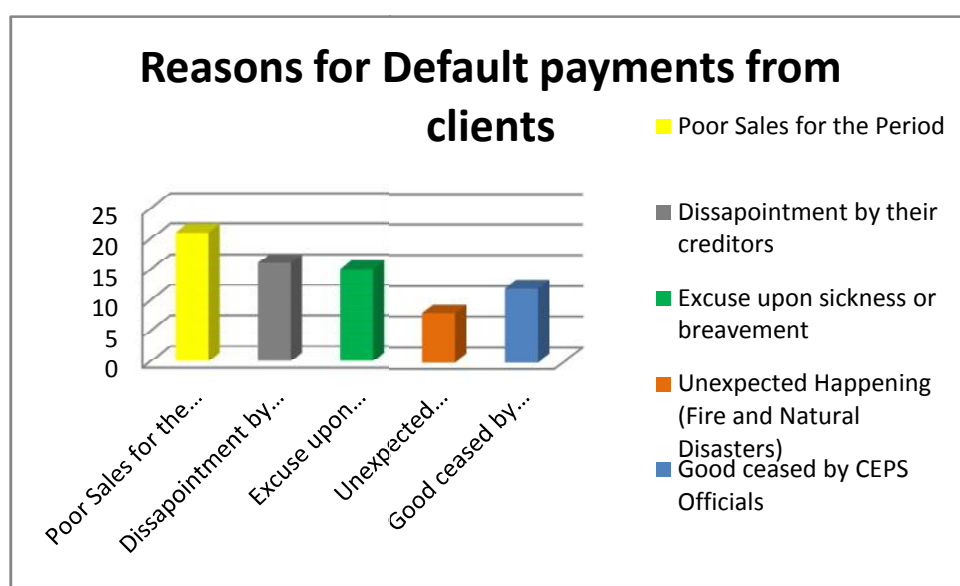
Managing a portfolio comes with a lot of risk and this may be the reason why few officers are given an annual target above GH¢ 200,000.00

#### 4.6 Results on the Reasons for Loan Default payments

This deals with interviews conducted with a sample questions to elicit information from clients as to various reasons that account for their inability to repay their loans on time.

Below is the figure for various reasons clients assigned for default on payment.

**Figure 4.6: Reasons for Default payments**



**Sources: Field Survey 2012**

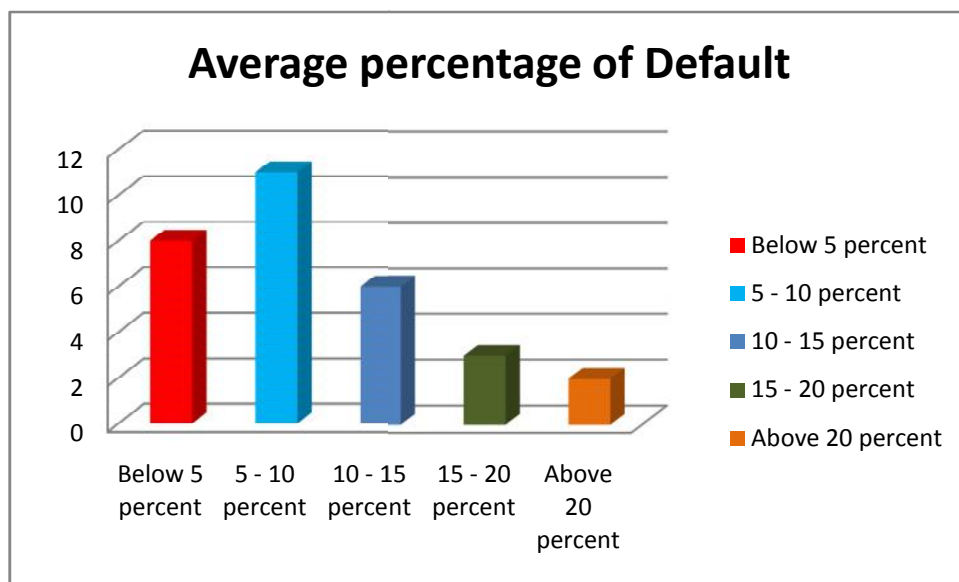
Figure 4.6 gives some of the reasons for default of payments. It is exposed that poor sales for the period was assigned as the prime reasons for default, disappointment by creditors of clients is also a major contributing factor, excused upon sickness or bereavement, unexpected happenings and goods of clients seized by CEPS officials are among the major reasons for the default of payments cited by clients. It is evident that, unexpected happenings is the least

among the majors contributors of default of payments due to the fact that, it is the least to happen as it does not regularly happens as the other factors.

#### 4.7 Results on percentage of Loan Default

This section deals with percentage of default that loan officers record in the performance of rendering service to their clients. The Branch Managers with their supervisor provided information as presented in the figure below.

**Figure 4.7: Average percentage of Default**



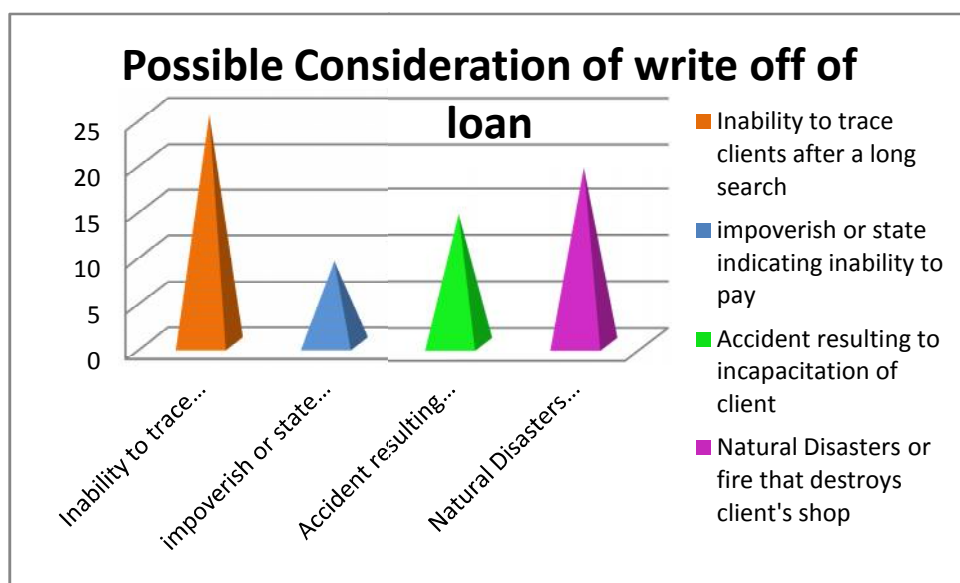
**Sources: Field Survey 2012**

It is shown from figure 4.7 that, most of the default rates among the loan officers is between 5-10 percent. Surprisingly, a high number of officers also recorded an average default percentage of below 5.

#### 4.8 Result on Loan Write off considerations from Sinapi Aba Trust

Here the Branch Managers and Supervisors assigned various reasons upon which the company may write off loan.

**Figure 4.8: Possible consideration of write off of loan**



**Sources: Field Survey 2012**

Some of the possible considerations highly applied by MFIs like SAT as indicated by Branch Managers and Supervisors include the following after a specified period has elapsed; -Inability to trace the client after a long search, this dominates the rest as it is the first to consider when writing off of loans.

- Next to it, is due to the fact that the client's shop including stock is affected by natural disaster such as flooding or by fire, as this makes the client incapacitated to repay the loan.

-Others that are considered includes, accident resulting to incapacitation of client and impoverished or state indicating inability to pay.

#### **4.9 Results on the effects of Loan Default**

This section looks at the effects that client's failure to repay loans on time have on the operations of MFIs such as Sinapi Aba Trust as indicated by Loan Officers and Branch Managers as well as Supervisors.

**Figure 4.9: Effects of Loan default**

Sources: Field Survey 2012

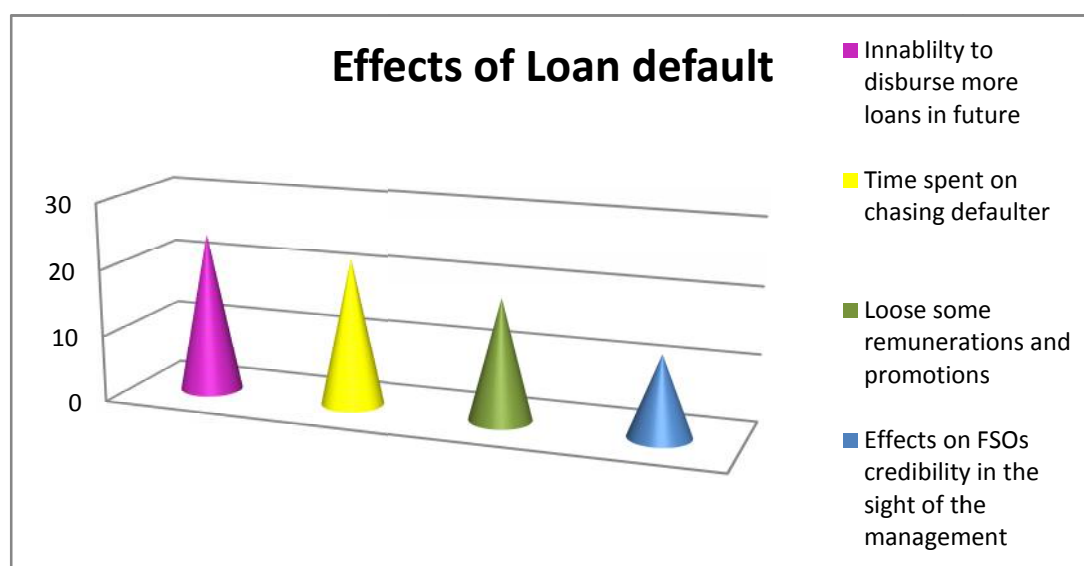


Figure 4.9 clearly shows that the main effect of loan default on MFIs such as Sinapi Aba Trust is the inability to disburse more loans for both loan officers and the company in general. It was also realized that officer with their management.

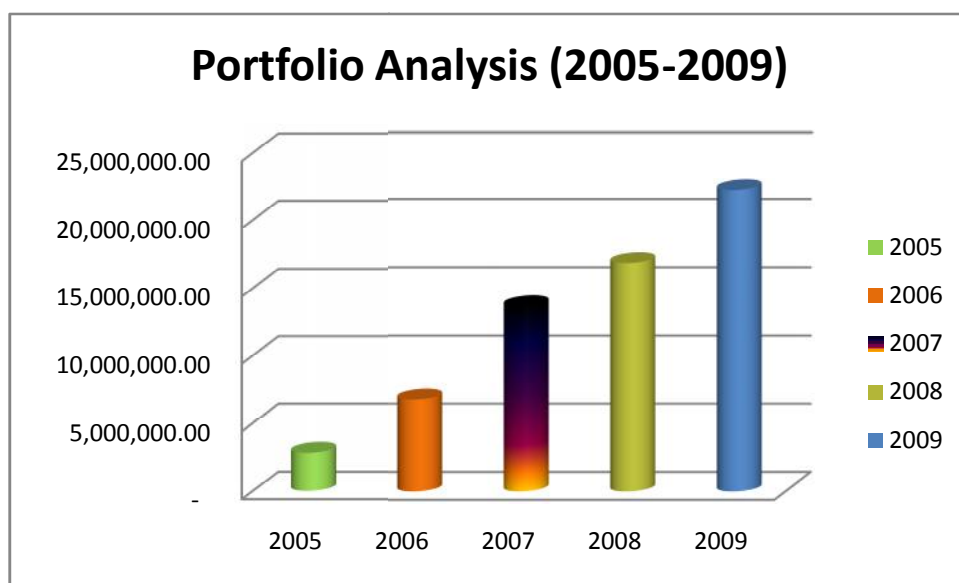
#### 4.10 Performance Analysis for Sinapi Aba Trust

**Table 4.10 Performance Indicators of Sinapi Aba Trust 2005-2009**

		2005	2006	2007	2008	2009
<b>Portfolio</b>		2,829,844.40	6,730,626.70	13,583,600.33	16,726,675.67	22,080,270
<b>Clients</b>		34,632	51,686	56,879	76,005	92,650
<b>Loans disbursed</b>	Number	62,565	69,028	71,767	72,829	78,882
	Value	11,120,620.00	16,938,583.84	32,905,923.60	48,276,005	57,135,596
<b>PAR &gt; 30 days</b>	Value	51,004.14	225,534.82	233,949.00	398,391.00	425,994.00
	%	1.80%	3.35%	1.72%	2.38%	1.93%
<b>F. S. O's</b>		108	108	128	115	137

Sources: Sinapi Aba Trust, 2012

**Figure 4.10 Portfolio Analysis**



**Sources: Sinapi Aba Trust, 2012**

Sinapi Aba has grown its portfolio over the last 5 years with a tremendous increase in capital in order to meet the ever increasing demand in loans. Between 2005 -2006, it increased its portfolio by nearly 140% where its customer or clients base also increased from 34,632 to 51,686 nearly 50% and majority of its previous clients were maintained. The year 2007 also saw an increase of over 100% in portfolio and 33% increase in client based. Between 2008 - 2009 saw another tremendous increase in portfolio of 32% and a client base increase of about 22%.

Figure 4.9 and table 4.1 shows a sharp increase in portfolio over years, it clearly shown that each year brings another increase in portfolio of SAT as well as increase in client based.

Moreover, it was find from the records of the Trust that, Value of loan disbursed increased from year to year with 2006-2007 saw an increase of 94% in loan disbursement, 2007-2008 an increase of 47% and 2008-2009 also witnessed an increment of 18.4%. This confirms the commitment of the Trust to reach to as many people as it could in order to reduce the level of poverty in the society.



This strategic hallmark of SAT has given it a competitive edge over other institutions in the industry. However, portfolio at risk has risen over the years as it has a linear relationship with increase in portfolio and value of amount disbursed. It is clear the table 4.6 that as the base of clients increases, it increases the amount to be disbursed and subsequently increases the portfolio at risk.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **Introduction**

This chapter presents the major findings, conclusions and recommendations of the study. The findings are spelled out in the objectives of the study which aimed among other things at assessing the impact of loan default on the operations of Sinapi Aba Trust from 2005-2009. The data collected and the processing result showed very important revelations. The findings and the recommendations are discussed below.

#### **5.1 Major Findings**

The findings of this study were designed to embrace the viewpoints of the Financial Service Officers (Loan Officers) and Branch Managers with their Supervisors representing that of Sinapi Aba Trust.

The following findings have been reached by the study in respect of the perception of the services of the Trust:

- Majority of Loan Officers have a good background in terms of educational qualification, which aids them to understand the operations of the Trust.
- Majority of the staff have worked with SAT for more than 2 years and have in depth experience with dealing with clients of the Trust
- It was found that some of the reasons clients assigned for default of payments to the loan officers includes the following:
  - Poor sales for the period.
  - Disappointment by the creditors of the clients.

- Sickness and/or bereavement of clients.
- Seizure of goods belonging to clients by CEPS officials.

However, Loan Officers, Branch Managers and Supervisors felt that, the following are the real factors responsible for default by clients, these includes:

- Lack of planning ahead by clients.
- Spending on unnecessary things by clients (No priority setting on spending)
- Multiple loans acquisition by clients.
- Lack of effective record keeping by clients.
- Diversion of business funds for other unspecified things.

In addition, loan defaults also have implications on the operations of MFIs, these include:

- Inability to disburse more loans in the near future, as this will have a rippling effects on other clients who may need the loan for either expansion or purchasing of goods and services.
- There will be a limitation on the operations of MFIs in disbursing loan to active poor in society. This diminishes or defeats the primary role of MFIs such SAT in alleviating poverty.
- It affects FSOs credibility or effectiveness in the sight of management.

On the other hand, loan defaults affect the operations of Sinapi Aba Trust. These include:

- Cash flow plan of the company
- Limits the ability to disburse more loans in the periods ahead.
- It puts pressure on company's planned budget.

- It frustrates the company's expansion plan in terms of new branches and amount disbursed.

## **5.2 Findings in relation to Monitoring of Operations of Sinapi Aba Trust.**

It was found from the qualitative data gathered from the management of Sinapi Aba Trust through the Branch Managers exposes that, there are various mechanisms put in place to check the activities of FSO's , the following are the mechanisms put in place:

- Direct access to FSOs clients at any time by management.
- Receive daily reports on repayments to check with expected schedule of client repayments.
- Appraisal for incentives to top management on performance on loan repayment of their clients.

In view of all these, it was identified from the qualitative data, these various procedures could be adopted by FSOs to ensure repayment on time, and they are;

- Intensive due diligence on client's operations before approval and disbursement of loans.
- Collaborative monitoring of clients operations by FSOs, supervisors and branch managers.
- Periodic training and reminders on consequence of default for sections of clients from time to time.
- Visiting clients periodically to inspect stock levels and check books or cash flow.
- Visit to know the progress of the business.

### **5.3 Conclusions**

In retrospect of the findings based on both the quantitative and qualitative data gathered from the field, it is general to make the conclusions based on the adverse findings. Generally default payments of loans has a cost effect on the operations of MFIs, the following conclusions are made:

- The factors responsible for loan default by clients of MFIs differ, clients assign different factors, while loan officers who are on the field also assign different factors, as can be seen from the discussions above. It is found that factors assigned by clients as reasons for default of payment are not explicitly the main reasons thereby much consideration should be given to that of loan officers in order to reduce loan default.
- It is observed that, loan default has an adverse effect on the operations of MFIs as it increases the cost of operations and reduction in amount of disbursement.
- SAT has increased its portfolio over the years, which has also increased its client base over the years as well as the total value of disbursement.
- It is clearly seen from the performance analysis that, increment in portfolio has a direct relationship with portfolio at risk.

### **5.4 Recommendations**

Generally, default of repayments of loans affects all operations of MFIs in Ghana. In view of this, there should be a conscious effort by all stakeholders in the industry to ensure an efficient method that should be adopted by all operators to maximize its operations and minimize default rates. Based on the data used for the discussion, the following strategic options were recommended to MFIs like SAT to ensure timely repayment of loans:

- There should be a base framework for all MFIs to operate or an acceptable system in place for monitoring the activities of potential clients such as SMEs and self

employed in Ghana. This will enhance the due diligence undertaken by MFIs which serves as one of the basis for granting loans to their clients.

- All MFIs should come together to build a strong and a reliable database of all clients and integrate all branches of the various MFIs in order to trace clients and to access the credibility of clients from other MFIs records to curb the multi acquisitions of loans from MFISs.
- MFIs should push for a legal backbone through the Central Bank which will govern their activities, therefore the need for a legislative instrument for their operations

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## QUESTIONNAIRE FOR FINANCIAL SERVICE OFFICERS

SEX ..... AGE ..... BRANCH .....

A. How long have you been working at SAT as an FSO?

- i. Less than a year
- ii. Between 1 and 5yrs
- iii. Between 6 and 10yrs
- iv. Above 10yrs

B. What is your educational level?

- i. HND Graduate
- ii. Degree Graduate
- iii. Master Degree Graduate
- iv. Others (SHS, Diploma, etc.)

C. Are you given monthly and annual target?

Yes [ ] No [ ]

D. If yes, what is your monthly loan disbursed?

- i. Below GHC 10,000
- ii. Between GHC 10,000 and GHC 15,000
- iii. Between GHC 15,000 and GHC 20,000
- iv. Above GHC 20,000

E. What is your annual target portfolio?

- i. Between GHC 120,000 and GHC 150,000
- ii. Between GHC 150,000 and GHC 200,000
- iii. Above GHC 200,000

F. Do client default on loan repayment?

Yes [ ] No [ ]

G. If an answer to (F) above is yes, list at most five (5) reasons given by clients for the default.

.....  
.....  
.....

H. Do you have reasons for clients default different from what the clients give?

Yes [ ] No [ ]

I. If your answer to (H) above is yes, list at most five (5) reasons given by clients for the default.

.....  
.....  
.....  
.....  
.....  
.....

J. Do the client's defaults have any effects on your performance?

Yes [ ] No [ ]

K. If answer to (J) above is yes, state some of the effects of loan default by clients on your performance.

L. What do you think management could put in place as a policy to reduce loan default considerably? .....

.....  
.....

## QUESTIONNAIRE FOR CLIENTS

GENDER .....

AGE .....

1. How long have you known Sinapi Aba Trust( SAT)  
Below one year [ ] 1 to 5 years [ ] 6 to 10 years [ ] Above 10 years [ ]
2. Have you ever taken a loan from Sinapi Aba Trust  
YES..... NO.....
3. If YES to the above question, how many loans have you taken from SAT?  
First ..... Second..... Third ..... Forth..... Five and  
Above.....
4. How long does it take for your loan to be processed?  
Between 1 to 10 days [ ] 2 weeks [ ] 3 to 4 weeks [ ]
5. What is the maximum loan amount you have taken  
GHø.....
6. Has the amount been increasing?  
YES [ ] NO [ ]
7. Have ever defaulted in your loan repayments?  
  
YES [ ] NO [ ]
8. What are the factors for your loan default?  
i.....  
ii.....  
iii.....  
iv.....
9. If YES to the above, how have you been treated?  
Friendly [ ] Unfriendly [ ]
10. Have you ever taken a loan from any other MFI other than SAT before?  
  
YES [ ] NO [ ]
11. Do you know anyone who has defaulted his/her loan payment with SAT?  
YES [ ] NO [ ]
12. Have you been recommending SAT to other people for loans?  
YES [ ] NO [ ]