Introduction
The growing visibility of informal activities in urban centres is one of the striking phenomena characterizing the space economy of cities of the developing world including Kumasi in Ghana. Closely associated with this phenomenon is the emergence of a variety of Microfinance Institutions (MFIs) responding to the financial needs of these micro and small informal operators who are unable to access the formal financial market. Through innovative product development, these microfinance institutions render very useful financial services to the informal sector as a result of the increased demand for their services. With time the operations of these MFIs have shown that the answer to the issues of under-employment, low-productivity, extreme poverty and other challenges confronting the informal sector lies in making financial services, particularly credit, available to the operators in the sector. This chapter examines the dynamic relationships between the informal economy and the delivery of microfinance services by MFIs operating in Kumasi. It further examines the size and growth of the interactions, key players in the transactions as well as the challenges and how they could be remedied through appropriate policy interventions.

Some Conceptual Issues of the Informal Sector
The concept of the ‘Informal sector’ was first introduced by Hart (1970) in his seminal paper on urban employment in Ghana in 1970. The ILO (1973) then popularised the concept in its World Employment Programme Report on Kenya in 1973. The term informal sector is generally used to mean economic activities that, at least in part, operate outside the national and local legislative or regulatory context. The products may be legal, but the processes through which they are prepared may not be fully legal; for example, where businesses do not pay taxes or are not registered (Chen et al, 2002). Evidence from many countries show that the households involved in the informal sector constitute what is termed – the ‘working poor’ – people who are working and possibly very hard and strenuously, but their employment is not productive in the sense of earning them an income which is up to a modest minimum (ILO, 1973). A publication by Lubell (1991) on the informal sector summarises some key points about the sector in the Third World. These are: (a) The sector absorbs about 40 – 60 percent of the urban labour
Future of the Tree

force of many Third World cities; (b) the predominant activity is petty trading; (c) informal sector enterprise heads often earn more than the official minimum wage or the average wage in the formal sector; (d) higher earnings and the relative independence enjoyed by informal sector entrepreneurs explain the strong attraction of this sector; and (e) informal sector participants usually constitute the bulk of the urban working poor.

The literature abounds with different definitions and characterisations of the informal sector (Lund et al, 2000; Cheng et al, 1999; Amin, 1996). It is generally accepted that informal sector activities have the following characteristics:
• rely on adapted technology;
• owned mainly by families;
• operate on small scale;
• are unregulated and use labour-intensive technology; and
• use indigenous resources and transfer skills through means other than the formal schooling system (ILO, 1973).

Various authors place different emphasis on each of the characteristics depending upon the specific activity or country in question. Whereas some emphasise size and regulation, others focus on technology and reliance on indigenous resources. These differences in emphasis make it difficult for the informal activities to be lumped together as a distinct and separate sector. Increasingly, the term informal sector has been found to be inadequate as it is not a ‘sector’ in the sense of a specific industry group, and so the term “informal economy” is used to encompass the diverse group of workers operating informally (ILO, 2002). In this paper both terms are used interchangeably, because the informal sector has such a wide currency.

Characteristics of the Informal Economy in the Kumasi Metropolis

The 2000 Population Census reported the population of Kumasi as 1,170,270 (Ghana Statistical Service, 2002). The population as at 2010 was projected to be around 1,826,000 (UNHabitat, 2008). About 47 percent of the population belonging to the age groups 20 to 64 years represents the labour force (KMA, 2003).

In the Kumasi Metropolitan Assembly (KMA), the informal sector has assumed an important dimension in the development of the local economy. For instance, in 1970, the informal sector employed about 54 percent of the labour force in Kumasi. This increased to about 65 percent in 1990 and is currently estimated to be about 75 percent of the labour force in the Metropolis, and out of this, self employment accounts for about 65 percent of the total employment (Boapeah, 2001; King and Braimah, 2005). Based on these figures, the informal sector population was estimated to be about 603,812 as at 2007. The role of the informal economy is not limited to employment generation alone, but serves as an important source of revenue for local and central governments. In 2001 alone, about 50.5 percent of KMA’s revenue came from internal sources of which the contribution of the informal
sector was a little over 80 percent (King and Dinye, 2002). The contribution of the informal economy therefore is substantial. The sector also contributes greatly to the acquisition of skills through the apprenticeship system of training. Many of the youth and school leavers learn on-the-job as apprentices from tradesmen in the informal sector. The dominance of the informal economy in Kumasi is expected to continue into the year 2020 and beyond as a result of the emphasis placed on the private sector-led economy and the Adjustment Programmes being pursued (Adarkwa and Post, 2001).

Boapeah (2001) using the “enterprise based” definition, categorised the informal economy in the Kumasi Metropolitan Area (KMA) into three forms namely: petty production, petty commerce and urban agriculture. The largest sub-sector in the informal economy in Kumasi is petty trade (including merchandising and retail), accounting for about 60 percent of total informal employment in Kumasi. This is followed by petty production (35 percent) which includes craft, artisan, processing and service enterprises – and urban agriculture accounting for the remaining 5 percent (Boapeah, 2001).

An alternative spatial classification approach (Afrane, 2007a) grouped the informal activities broadly into sedentary and foot-loose activities. The sedentary group includes activities in large concentrated areas, public areas and home-based enterprises. The large areas accommodate activities like fitting/garages including a whole array of auto-mechanical works, sale of timber and manufacture of wood products. Examples are Suame Magazine, Asafo fitters zone, Amakom Extension (Sobolo), Sofoline and Central Market (Kejetia Market), reputedly the largest open air market in West Africa. The public spaces are pavements/walkways, parks, alleys, paths, road shoulders, open spaces, undeveloped parcels of land and nature reserves that are reserved for public use, but have been continuously encroached upon by petty commercial and commodity production activities. Home-based enterprises comprise a variety of small-scale informal activities operating within housing space. An enterprise census conducted in 2003 revealed that a total of 801 enterprises were operating in two low-income communities (Asawase and Ayigya) surveyed in Kumasi (Afrane, 2003). Finally, the foot-loose category consists of mainly street hawking and vending. The numbers involved are quite significant, but the exact size defies accurate measurement as a result of their mobile nature. The people involved in street hawking operate on almost all the major arterial roads in the Metropolis. The preferable locations are areas of traffic congestion often close to traffic lights and major junctions. The trading activities are not restricted to only the day but also continue into the night in some well lit areas. Figures 7.1 and 7.2 show some of the informal activities in the metropolis.
Figure 7.1 – Street Selling Activities at Kejetia

Figure 7.2 – A Dressmaking Business

Challenges of Informal Economy Workers in Kumasi

Different groups in the informal economy face different challenges with varying degrees of vulnerability. Lack of access to credit, is one of the main challenges faced by informal economy workers and this hampers the growth of such enterprises in the City. The reasons include lack of collateral by informal economy workers and the unwillingness on the part of the formal financial institutions to reach out to the operators apparently because of the perceived high risks involved in such transactions (Baah, 2007). In Kumasi, the sources of finance are mostly informal – personal savings and borrowing from friends with interest rates closely linked to the prevailing high market rates.

Constraints relating to infrastructure include lack of formal markets and street furniture, such as benches, and storage space, security of property from crime...
and access to cheap and convenient transport to convey goods to market centres. Working conditions are very poor because of the insecurity the entrepreneurs experience with respect to their premises. For example, while bakers operate from home, vegetable sellers operate under temporal sheds or open spaces. Others display their goods on mats/plastic sheets on the floor. As a result, many informal workers operate in very hazardous environments with little or no protection at all. Some of the hazards include the lack of hygienic eating places and clean toilets, and working in environments with very high noise levels. Mostly because of the unhygienic conditions under which they operate, the workers are exposed to all forms of diseases such as typhoid, malaria and dysentery.

According to Baah (2007) employees in the informal economy do not have employment contracts governing tenure of employment, hours of work, rest periods, leave, promotion, and termination; among others. Thus majority of these workers do not have job security with implications for income security because, generally, loss of job means loss of income. This is particularly so for most informal economy workers because their only asset is their labour. Informal economy workers who lose their jobs do not receive severance payment. Most of them, particularly the older ones, may find it extremely difficult to find alternative jobs. One of the consequences is the loss of social and economic status and ultimately social exclusion and destitution.

There are laws governing the informal economy, but these are largely ineffective because of several reasons. Firstly, favouritism has played a major role in securing informal sector operators in some locations. For example, some traders’ organizations benefit from personal links with KMA officials and are left undisturbed in exchange for political support or information on opponents (King, 2006). This involves inter-personal linkages between the Metropolitan Authority on one hand and the street traders on the other. The authority in turn offers economic benefits and protection.

Generally, physical planning schemes in the metropolis make no accommodation for informal operators, particularly traders (Boapeah, 2001). Although satellite markets have been built outside the Central Business District (CBD) in Kumasi, some of them are not commercially viable in terms of location and the provision of other complementary services such as banks, post offices, and department stores. In the absence of approved spaces for their business activities, the informal operators settle on any public spaces they can find, especially in the CBD and along the main arterial roads. Often as a result of political pressures, City authorities embark on de-congestion exercises to do away with these informal enterprises. Some local authorities resort to excessive force to get rid of them and as a result disrupt their businesses at great cost and loss to them and their families. According to Baah (2007), in cases where they are not chased out of the streets and as a result of the illegal spaces they occupy, the authorities tax them heavily in such a way as to discourage them from engaging in those informal activities at such locations.

The constraints identified above are often intertwined. Since small-scale and informal economy entrepreneurs have difficulties obtaining credit from banks,
they often rely on money lenders, who charge very high interest rates, thereby reducing their profit margins. It has been established that credit is only part of the admitted needs of informal sector operators. In addition to capital, they also require adequate and functional infrastructure, technology, decent working environments, management, financial and record-keeping capabilities.

**Financing of the Informal Economy**

In Ghana, financial services to the informal sector have been made accessible largely through microfinance institutions, many of which started operations in the mid-1990s. The country’s banks have long considered the informal sector un-bankable and for the better part shunned it, because of the perceived risk of high loan defaults and low savings mobilisation potential. Kwateng (2009) argues that the banks can hardly be blamed for their rather dismissive attitude towards the informal sector because, traditionally, banking operations work with formal set ups where proper books are kept and have a defined management structure with a deep sense of appreciation for accountability. All of these are lacking in the informal economy, and what is worse is that – in the case of Ghana, the personal residential address system is nearly non-existent and many people do not have proper title to their landed properties to afford them the opportunity to use them as collateral for loans.

With the entry of microfinance institutions, particularly the deposit-taking ones, into Ghana’s financial services industry, businesses and individuals that were hitherto considered un-bankable simply on account of being an informal sector or low-income player, now have access to financial services through the country’s microfinance institutions. In fact, the MFIs have produced remarkable results in recent years through their all-important role of providing financial intermediation to Ghana’s informal sector – which accounts for the biggest piece of the pie in terms of the nation’s economic activity (Afrane, 2002).

**Categories of MFIs in Ghana**

The micro financial system in Ghana falls into three main categories: formal, semi-formal, and informal. Formal financial institutions are those that are incorporated under the Companies Code 1963 (Act 179), and subsequently licensed by the Bank of Ghana (BOG) under the Banking Law 1989 (PNDCL 225) to provide financial services under Bank of Ghana regulations. Semi-formal institutions are those that are formally registered, but are not licensed by the Bank of Ghana. Their poverty focus has enabled them to reach out to relatively poorer clients using microfinance methodologies, though on a limited scale. However, the Informal Financial System covers a range of activities known as “susu”, including individual savings collectors, rotating savings and credit associations, savings and credit clubs run by an operator. It also includes moneylenders, trade creditors, self-help groups, and personal loans from friends and relatives, and churches. Moneylenders are supposed to be licensed by the Police under Money Lenders Ordinance 1957.
The Rural and Community Banks are licensed to provide financial intermediation in the rural areas without banking facilities. Increasing numbers of the Rural Banks are now operating in urban centres attending to the credit needs of mostly informal sector operators. Non-Bank Financial Institutions such as Savings & Loan Companies (S&L) provide mainly savings and loan products to clients mostly operating in the informal economy. Credit Unions are thrift societies offering savings and loan facilities exclusively to members. Financial Non-governmental organisations (FNGOs) are generally non-profit agencies interested in enterprise development and credit delivery with poverty reduction as their ultimate goal. The Government has also launched a number of special credit schemes since 1989, usually at subsidised rates, reaching very few people, and with extremely poor recovery rates. Examples of such credit schemes include: Enhancing Opportunities for Women in Development (ENOWID), Poverty Alleviation Fund of the District Assemblies’ Common Fund, Emergency Social Relief Project in 2001 and currently, the Micro-Credit Scheme and Small Loans Centre. Apart from the government schemes, there were also donor supported micro-credit programmes such as UNDP Micro-Start, Social Investment Fund (SIF), Community Based Rural Development Project (CBRDP) and currently the Millennium Challenge Account (MCA).

Types and Scale of MFIs Operating in the Kumasi Metropolis

There are many types of financial institutions in the Kumasi Metropolis that provide all kinds of financial services to diverse clients in the informal market with the overall aim of bringing financial empowerment to poor entrepreneurs, particularly women. Principal among these are Savings and Loans companies and Rural Banks which are technically not microfinance institutions but do operate microfinance “windows” to take advantage of the growing informal credit market. The rest are financial NGOs (FNGOs), “susu” companies, credit unions and the newly emerging financial service agencies. The different categories of MFIs operating in the metropolis are presented in Table 7.1.

Table 7.1 – Categories of MFIs in Kumasi

<table>
<thead>
<tr>
<th>Institutions</th>
<th>No. in KMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Non-Governmental Organisations</td>
<td>5</td>
</tr>
<tr>
<td>Savings and Loans Companies</td>
<td>13</td>
</tr>
<tr>
<td>Rural and Community Banks</td>
<td>20</td>
</tr>
<tr>
<td>Credit Union Associations</td>
<td>47</td>
</tr>
<tr>
<td>Susu Companies</td>
<td>64</td>
</tr>
<tr>
<td>Individual Susu Operators</td>
<td>700</td>
</tr>
<tr>
<td>Financial Services</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Author’s Survey, 2011
The data show that, a large number of microfinance agencies operate in the metropolis. All these agencies have considerable number of clients. It is significant to note that there are a high number of Susu operators in the City despite the high risk associated with some of them. The financial service agencies are the latest players in the market. They are private agencies without well-defined regulatory framework unlike the rural banks and savings and loan companies. The credit unions operate in communities, work places and in churches. With the exception of the FNGOs, all the rest provide both credit and saving facilities. Most of these MFIs are located within and around the CBD and sometimes with agencies in other parts of the metropolis. Some of the leading MFIs in the metropolis are Pronet, First Allied, Multi Credit Savings and Loan Companies and Sinapi Aba Trust, (a financial NGO).

**Types of Products to Clients**

Generally, MFIs provide four main categories of products or services; namely, credit, savings, money transfers and insurance. Most of the MFIs in Kumasi deliver diversified loans and savings products to their clients while a few of them, especially the rural banks and savings and loan companies in addition provide money transfer services. Some micro-insurance products have been developed by a few MFIs and are currently deployed on experimental basis. In more specific terms, the MFIs provide individual and group loans, SME loans, working and start-up capital loans, various forms of “susu” savings and loans as well as educational loans all aimed at responding to the varied financial needs of their clientele. In addition to these products, some of the MFIs provide entrepreneurial training and advice to individuals and groups within the informal sector such as petty traders, artisans, farmers, market women, dressmakers and beauticians, restaurants/foodsellers, poultry farmers and vegetable growers. One important point is that the products on the market are generally limited and there are few differences in the types of products being offered by the MFIs. The loan sizes of these products generally range between GH₵50 and GH₵1000. In some limited cases, they could be as high as GH₵5000 for special clients.

**Demographic Profile of Clients Reached**

A study on Outreach of MFIs in Kumasi by Ahiable (2008) provides information on the demographic characteristics of clients. The study found that majority of the respondents were between 30 to 49 years representing 75 percent of clients’ population in the Metropolis. This shows that majority of clients belong to the economically active age group. The study further reports that women constitute about 81 percent of the total client population. With respect to education, it was observed that 25 percent, 45 percent, and 10 percent have attained primary, secondary and secondary/technical education respectively while 19 percent of the clients have not had formal education. This implies that the reporting MFIs
reach out to both literate and illiterate clients. Common characteristics among MFI clients include lower income, lack of skills and limited formal education. These characteristics tend to make women dominate the client population because in Ghana, women generally have lower levels of education, lower-incomes and are more likely to be unemployed. The other reason for the high participation of women is the lending methodology used by the MFIs that does not necessarily require collaterals and therefore appeals to clients at the lower end of the poverty scale, the majority of whom are women.

**Number of Clients Reached**

The study by Ahiable (2008) further shows that a total of 46,057 loan clients and 70,534 saving clients were reached by the five MFIs surveyed. This implies that the five sampled MFIs were providing credit and savings services to about 7.6 percent and 12 percent respectively of the potential clients’ population of 603,812 in 2007. This represents Borrowers to Savers Ratio of 0.65, which depicts that the reporting institutions, served about two times voluntary savers than borrowers (see Table 7.2 for details).

**Table 7.2 – Summary of Outreach to clients in KMA**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>MFI Type</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowers</td>
<td>S&amp;L</td>
<td>19,508</td>
<td>23,360</td>
<td>28,921</td>
<td>30,799</td>
</tr>
<tr>
<td></td>
<td>FNGOs</td>
<td>7,470</td>
<td>7,080</td>
<td>10,411</td>
<td>15,258</td>
</tr>
<tr>
<td>Total borrowers</td>
<td></td>
<td>26,978</td>
<td>30,440</td>
<td>39,332</td>
<td>46,057</td>
</tr>
<tr>
<td>Informal sector population</td>
<td></td>
<td>509,105</td>
<td>536,597</td>
<td>572,876</td>
<td>603,812</td>
</tr>
<tr>
<td>Outreach Penetration to</td>
<td></td>
<td>5.3%</td>
<td>5.6%</td>
<td>6.8%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savers</td>
<td>S&amp;L</td>
<td>31,055</td>
<td>35,718</td>
<td>43,712</td>
<td>53,274</td>
</tr>
<tr>
<td></td>
<td>FNGOs</td>
<td>7,501</td>
<td>8,142</td>
<td>12,043</td>
<td>17,260</td>
</tr>
<tr>
<td>Total savers</td>
<td></td>
<td>38,556</td>
<td>43,860</td>
<td>55,755</td>
<td>70,534</td>
</tr>
<tr>
<td>Outreach Penetration to</td>
<td></td>
<td>7.6%</td>
<td>8.7%</td>
<td>9.7%</td>
<td>12%</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowers to Savers Ratio</td>
<td></td>
<td>0.70</td>
<td>0.69</td>
<td>0.70</td>
<td>0.65</td>
</tr>
</tbody>
</table>

**Source:** Ahiable (2008)
Loans Disbursed

Essentially, the availability of funds determines the degree to which clients can be reached.

The study further showed that an amount of GH¢16,483,919 was disbursed as loans among 46,057 borrowers which yields an average loan size of GH¢358 per borrower. The S&Ls disbursed the bigger amount of GH¢12,757,115 among 30,799 borrowers which represented 77 percent per the reporting MFIs. The remaining 23 percent was disbursed by the FNGOs, disbursing an amount of GH¢3,726,804 among 15,258 borrowers (see Table 7.3). The reason why S&Ls disbursed more loans than the FNGOs was because, unlike the S&Ls, the FNGOs are not mandated to mobilise voluntary savings from the public. This explains why FNGOs recorded relatively high Loans to Savings Ratio of 3.5 as compared to 1.1 by S&Ls for the year 2007 (see Table 7.3). The relatively high ratio of 3.5 implies that FNGOs disburse more loans than they receive deposits from members.

Table 7.3 – Summary of Volume of Transactions MFIs in KMA

<table>
<thead>
<tr>
<th>Indicator</th>
<th>MFI Type</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (GH¢)</td>
<td>S&amp;L</td>
<td>3,837,653</td>
<td>6,143,408</td>
<td>8,838,199</td>
<td>12,757,115</td>
</tr>
<tr>
<td></td>
<td>FNGOs</td>
<td>1,344,108</td>
<td>1,759,060</td>
<td>2,621,777</td>
<td>3,726,804</td>
</tr>
<tr>
<td>Total Loans disbursed</td>
<td></td>
<td>5,181,761</td>
<td>7,902,468</td>
<td>11,459,976</td>
<td>16,483,919</td>
</tr>
<tr>
<td>Savings (GH¢)</td>
<td>S&amp;L</td>
<td>3,672,709</td>
<td>5,281,833</td>
<td>7,467,978</td>
<td>11,527,765</td>
</tr>
<tr>
<td></td>
<td>FNGOs</td>
<td>406,318</td>
<td>503,847</td>
<td>768,992</td>
<td>1,071,529</td>
</tr>
<tr>
<td>Total Savings Mobilised</td>
<td></td>
<td>4,079,027</td>
<td>5,785,680</td>
<td>8,236,970</td>
<td>12,599,294</td>
</tr>
<tr>
<td>Loans to Savings Ratio</td>
<td>S&amp;L</td>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>FNGOs</td>
<td>3.3</td>
<td>3.5</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: Ahiable (2008)

Savings Mobilised

Generally, savings play an important role not only for MFIs but also for the clients in protecting them against the seasonality of cash-flows and fulfilling an insurance function. In addition, building up deposits reinforces financial discipline for customers and can eventually yield collateral and serve as a source of funding for MFIs. The reporting MFIs mobilised a total of GH¢12,599,294 as savings. The S&Ls accounted for GH¢11,527,765 savings which represents 91 percent and the remaining 9 percent was accounted for by the FNGOs (see Table 7.3). This translates
into Loans to Savings Ratio of 3.5 and 1.1 for FNGOs and S&Ls respectively; implying that FNGOs have limited savings as compared to S&Ls. The amount of savings mobilised by FNGOs was low compared to S&Ls because the financial regulations disallow them from collecting voluntary savings. Consequently, the savings they mobilised was largely attributed to compulsory deposits demanded by the FNGOs as a guarantee for clients so as to enable them qualify for successive bigger loans. This limits the amount of funds available for on-lending to clients by the FNGOs. The level of savings mobilised confirms that microfinance clients do not only have the capacity to save, but they also look for opportunities to save their limited resources with adequate security against the rainy day (Afrane, 2007b).

**Impact of Microfinance Schemes**

A three-year longitudinal study (1997–1999) that assessed the impact of microfinance interventions on the clients of Sinapi Aba Trust in Kumasi (the leading MFI in Ghana) sheds some light on this subject (Afrane, 1999; 2002). The study established that turnover increased by 157 percent in 1997 on the average for the clients. Apart from economic gains the clients reported of enhanced public respect and acceptance, self-esteem, participation in community activities, increased monetary contributions to social projects and empowerment of women in the form of their enhanced ability to contribute to family finances, reduced dependence on their husbands, improved self-worth and confidence; among others. In sum, the results of the studies indicate that the injections of small capital into micro-enterprises are capable of raising the incomes of the operators to appreciable levels within a relatively short time. These findings and others from Bolivia, Uganda and Columbia (ECLOF, 1999) amply show that micro-enterprise financing is really one of the strategic means through which the fight against poverty in developing countries could be won. However, it was also observed that although micro finance programmes have every potential to improve the conditions of beneficiaries, they also have the tendency of creating disturbing negative impacts such as stress and distraction from family affairs if necessary counteracting measures are not taken. The challenge, therefore, to MFIs is to be mindful of these negative tendencies so that appropriate steps could be taken to minimise these effects in the design of credit programmes as much as possible (Afrane, 2007a).

**Challenges Facing the Microfinance Sector**

Both informal sector operators and micro finance institutions face a myriad of challenges which affect their operations. Since the challenges of the former have been discussed earlier, this section focuses more on the problems of the latter. Challenges of MFIs include limited funding and loan recovery constraints, competition leading to multiple borrowing among MFI clients, inadequate capacities, and limited products. Details of these challenges are discussed below.
Competition and Multiple Borrowing

The increasing numbers of MFIs in the metropolis has resulted obviously in competition among the players. With time, the clients have become more complex and sophisticated in their dealings with the MFIs. Some of them have now adopted multiple borrowing tactics with the intention of using a loan from one agency to pay the other. This trend is developing among clients with serious recovery consequences for the MFIs. Although accurate data on loan arrears are not readily available, it is generally estimated by key officials in the sector that it hovers around 5 to 10 percent portfolio at risk (PAR). (The standard PAR for 30 days is five percent).

Limited funds and Capacity

Funding for the microfinance sub-sector has been from three sources – the institutions themselves, government, and development partners. In the first place, available funds have not been adequate, and secondly, the different sources come with their associated conditions, and thus distort the market in some cases. Many MFIs operate under capacity and are unable to meet the loan requirements of their clients. Many clients in the metropolis therefore complain of delays in follow-on loans with adverse effects on their businesses. There is, therefore, the need for a central microfinance fund to which MFIs can apply for on-lending and/or capacity building support, building on experience such as the case of the Training Fund under the Rural Financial Services Project. Also, staffing and competency levels of the MFIs are below what is desired.

Limited Products

Current strategies for credit delivery are not adequately diversified or efficient, and therefore are unable to fully meet the varying and peculiar demands of the market and different categories of end-users in the metropolis. The objective of microfinance is to provide resources for the poor with differing needs. Nonetheless, there is yet to be adequate, reliable and acceptable methods for classifying various poverty levels and enterprise requirements to enhance the categorization of potential and actual MFI clients and other forms of support that may be more appropriate for the various categories of demand groups.

Data/Information and Dissemination

Generally, there is inadequate information on microfinance institutions, their operations and types of clients in the metropolis. Approaches to and methodology for data and information gathering among the MFIs are not uniform, making it difficult to centrally monitor progress of the agencies. At the institutional level, data/information gathering and dissemination are weak within and between institutions. Further there are no common benchmarks, methods for measuring impact and limited information sharing among peers. Thus, lack of adequate
and reliable information on outreach in terms of its depth and breadth remains a challenge for efficient operation of MFIs.

**Coordination**
Currently, there is no formal body that is responsible for coordinating all activities associated with microfinance at both city and national level, nor is there a forum for dialogue among stakeholders on policy and programme issues. Although Ghana Microfinance Network (GHAMFIN) is playing some coordination role at the national level, its capacity is not extended to the City level. This vacuum coupled with weak data base aggravates the problem of multiple borrowing and other irregular practices developing among clients in the metropolis.

**Informal Sector Related Challenges**
Besides the foregoing, there are other challenges associated with informal sector operators which affect the operations of MFIs and therefore require attention. These include lack of secured business locations and physical addresses, frequent movements resulting sometimes from decongestion exercises by KMA, lack of formal business registration, frequent fire outbreaks especially in the markets and lack of insurance, low levels of education and entrepreneurial skills.

**The Way Forward**
In response to the above challenges, the following interventions are recommended to improve the delivery of financial services to the informal sector operators.

**Specialisation among MFIs**
Current strategies and products for credit delivery are repetitive and inadequate. New entrants need to concentrate credit delivery on specific activities such as food crop producers, processors or marketers or manufacturing. Specialisation requires that micro-loan product development is done innovatively by actors within the industry to ensure their sustenance in the fledgling but competitive microfinance industry in the City. Every effort should be made through research and effective consultation in the local market to design new products that are responsive to the peculiar needs of the different client groups in the metropolis in terms of appropriate loan sizes, loan terms, delivery approaches, re-payment arrangements, and fixing of interest rate regimes.

**Wholesale Financing**
There is no doubt, outreach level is still low and more funds are required to reach out to more deserving clients. Apart from current funding level not being adequate, different sources of funds come with conditions. It is recommended that the
Government of Ghana should set up a central wholesale microfinance fund to which MFIs can apply for funds for on-lending. Such a fund should be well-managed to attract more funds from private banks, investment companies, foreign investors and development partners.

**Capacity Building and Training Programmes**

The staffing and competency levels of MFIs are still below what is desired, hence the need to enhance them through training for efficient and effective microfinance operations. Training programmes are also very important to enhance professionalism by scheme managers and reduce high default rates on the part of beneficiaries. Consequently, capacity building programmes should include various stakeholders in the sector including, Micro Finance and Small Loans Center (MASLOC), Ghana Micro Finance Network (GHAMFIN), MFIs, relevant ministries, and technical service providers with the view to upgrading capacity in the industry in general. Informal sector operators in the City also need training programmes in the areas including: financing, costing, marketing, accounting, business management skills and adoption of new technology to enhance their capacity to utilise effectively the loans received from the MFIs.

**Use of Technology**

MFIs should improve their data management systems using Information and Communications Technology (ICT) so as to have a well defined database of clients for effective delivery of loans and client monitoring and evaluations. Proper data gathering through electronic means will assure accountability and also aid impact assessment and further provide insights that will assist regular policy formulation and management reforms. It is also important to stress that regular information sharing and collaboration should be instituted among the local MFIs in order to clamp down on any illegal practices from clients.

**Regulation and Control of New Entries**

There appears to be a lot of fragmentation and proliferation of MFIs activities in the City. A good example is the recent mushrooming of financial service agencies and “susu” companies in Kumasi. The system is too open without any effective control of entry and regulation of performance; as a result, many unsuspecting clients have fallen victim to the dubious financial operations of some new MFIs. There is the need for some degree of control and regulation at both national and city level to ensure that all players operate according to legal financial norms and adhere to professional standards. Clients can also report their complaints to such a body when they feel they are getting a raw deal from the MFIs.
Infrastructure Support Programmes

The KMA should create a conducive environment by providing relevant infrastructure to support and enhance the activities of informal economy operators. The infrastructure should include construction of markets and industrial estates or sheds serviced with the necessary amenities. This is critical because most of these clients operate in unauthorised structures and in front of commercial store buildings which do not guarantee sustainability of their businesses because of the periodic city decongestion exercises, coupled with natural disasters such as rain storms and flooding. Provision of essential infrastructure would assure sustainable markets and reduce loan delinquency among clients. City authorities should also speed-up efforts to provide address system in the City to enhance easy identification of clients by MFIs.

The Future of the Informal and Microfinance Sectors

Current conditions in the metropolis and the country as a whole suggest that the two sectors are likely to grow in the years ahead. Since formal sector jobs are not increasing in the national economy, more and more people will seek employment in the informal sector. This will obviously fuel the demand for more microfinance services. The microfinance sector in the metropolis is definitely going to expand in response to this growing demand. Aside from positive initiatives from the government to provide more funds for the sector and to strengthen its operations, more private investors are showing interest in the sector. This has resulted in the increasing numbers of private financial service agencies currently operating in the metropolis. It is therefore anticipated that with the consideration of a new law to regulate the sector, the metropolis is likely to witness enhanced dynamism in microfinance activities in the decade or two ahead.

Conclusion

The potential economic benefits of sustainable microfinance in the Kumasi metropolis are compelling, and its potential in stimulating high productivity and income in the informal economy cannot be understated. This calls for a holistic approach, as discussed, to facilitate the development of the microfinance sub sector and thereby unleash its potential for accelerated growth and development of the informal sector and national economy as a whole. It is gratifying to note that the Government of Ghana has adopted microfinance as one of the important strategies for poverty reduction and wealth creation. Recognising the role various institutions and individuals can play to ensure the achievement of this national vision of achieving the Millennium Development Goals (MDGs) by the year 2015, there is the need to quicken the pace of reforms to strengthen the relationship between the informal and microfinance sectors in order to achieve accelerated growth and poverty reduction.
List of References:


