

# SCALING UP MICROFINANCE INSTITUTIONS – OPPORTUNITIES AND CHALLENGES IN RURAL AREAS

## Background

For more than twenty years, the microfinance industry has chalked a great deal of success in terms of outreach and sustainability in most countries of the world, particularly in Latin America and Asia.

Africa has not been found wanting and it is gradually warming itself into pole position with extensive microfinance activities almost in every country on the continent. It could be said that in Africa and particularly in Ghana, microfinance remains primarily a supply-driven endeavour with a marginal number of methodologies applied mainly to provide working capital loans to micro entrepreneurs, farmers and the vulnerable in our rural areas.

## Microfinance Institutions in Ghana

Microfinance institutions in Ghana are classified as informal, semi-formal and formal financial suppliers who help to roll out various microfinance schemes for the rural poor, especially women and other vulnerable groups.

- **Informal financial suppliers** include Susu Collectors, Moneylenders, Family members, Rotating Savings and Credit Associations (ROSCA) etc.
- **Semi-formal financial suppliers** are credit oriented NGOs such as Sinapi Aba Trust, ENOWID Foundation and Catholic Relief Services.
- **Formal financial suppliers** include the Non-Bank Financial Institutions NBFIs namely Savings and Loans Companies, such Women's World Banking Ghana – (WWBG), Credit Unions, Rural and Community Banks and some commercial banks (e.g. Agricultural Development Bank and Metropolitan and Allied Bank)

The commercial banks programme their microfinance activities through their branch networks in the rural areas, whilst the Rural and Community Banks which are dotted in all the regions and districts of rural Ghana collaborate with the ARB Apex Bank in their efforts at getting to their targets.

Microfinance institutions in Ghana have similar structures as compared to others in other parts of Africa; at the top of the structures are the Board of Directors, and the manner in which their businesses are governed by the board and senior management in:

- Setting corporate objectives
- Managing operations of the institutions
- Considering the interests of recognized stakeholders
- Conflict resolution.

Governmental agencies involved in microfinance include, ministries, municipal and district Assemblies.

NGOs which are in the microfinance business are operated predominantly by individuals and groups.

#### *Resources*

Microfinance institutions in the country, like most of their West African counterparts rely on Equity, Savings Deposits, Subsidies and Credit lines as their main source of resources in the management of their institutions:

#### *Equity*

These are capital introduced and retained earnings depending on the performance of the institution.

#### *Savings Deposits*

They are funds mobilised from clients which are recycled, creating a multiplier effect for the institution and its target market.

#### *Subsidies*

These are governmental interventions through the ministries, municipal and district assemblies to the rural poor.

#### *Credit Lines*

These are support from donors and other agencies interested in promoting microfinance programmes in the country.

### **Scaling Up Strategies for Microfinance Institutions**

Just as every organization must follow a business strategy to improve its competitive position, microfinance institutions must also decide their orientation towards growth and sustainability.

In this regard, microfinance institutions must adopt the right directional strategies to grow and remain in business. These strategies may include:

- Growth Strategies
- Stability Strategies
- Portfolio Strategies
- Human Resource Management Strategies.

As regards growth strategies, MFIs must pursue corporate directional strategies designed to achieve growth in our deposit base, assets, profits and/or combination of them.

Continuing growth means increasing the sale of our products and a chance to benefit from economies of scale, thus increasing our profits and enhancing our image.

MFIs can also choose stability strategies over growth strategies by continuing with our current activities. Even though sometimes viewed as lack of strategy, these strategies can be successful in a reasonably predictable environment and can be adopted for small MFIs who have found a niche and are happy with their success. But let me sound a note of caution that, such strategies must be adopted only in the short run, to avoid the consequences of our rapidly changing environment.

With portfolio strategies, MFIs should continue to ask ourselves how our products designed to suit the needs of our target market (the rural poor and other vulnerable groups) should be managed to boost our overall performance.

Questions that must continuously be answered include:

- How much of our time and resources should be spent on our best products to ensure that they continue to be successful?
- How much of our time and resources should we spend developing new costly products, most of which will never be successful?

The human resource strategies must address issues as to whether MFIs should hire a large number of unskilled employees who receive low pay or hire skilled employees who receive relatively high pay and are cross-trained to participate in self-managing work teams to help build the future of MFIs.

Other strategies include:

- To build consensus among stakeholders – the target community, project staff members, individuals and organizations.
- To formalize national policies that can support and encourage the MFIs.
- To create the awareness needed for our institutional development.
- To give short-term credits
- To concentrate on small credits
- To be customer friendly
- To standardize our lending process
- To highly streamline our operations
- To select staff from the local community in which we operate
- To motivate our clients to repay the loans they collect by using group lending with joint liability for repayments, using incentives for prompt repayments.

The above strategies to help in the scaling up of MFIs should be directed towards:

- Long-term direction of these institutions.
- Achieving competitive advantage in the market/industry.
- Developing **strategic fit** for our organisations as well as,
- Ensuring that incremental learning does occur and best practice is diffused throughout all MFIs.

### **Opportunities**

Some of the opportunities that would accrue to MFIs in the scaling up process include:

- Huge and untapped market for our products
- Easy access to our products by the rural productive poor, especially our womenfolk and the handicapped.
- Enhance net gains to our various countries and the poor.
- Provide strategic linkages with multilateral, bilateral and private donors.
- Enhance the value of microfinance institutions

- Enhance participation of stakeholders, including the rural productive poor, in the development of the rural financial sector.
- Improve capacities, within microfinance institutions to provide services, and among households to use such services.
- Ready market for our products
- High loan recovery rates
- Favourable macro economic conditions
- New product development

### **Challenges**

In any business environment, challenges cannot be ruled out and MFIs are also not spared the agony of going through such challenges, some of which may include.

- Failure to adopt the right measures to enhance the participation of stakeholders, including the rural productive poor, in the development of the rural financial sectors.
- Efforts at improving capacities within MFIs to enable them provide the needed services.
- Lukewarm attitudes by the authorities to provide right policies and regulatory frameworks conducive to the healthy development of rural financial services
- Absence of the right organizational structures by the MFIs.
- Impact of institutional culture
- Growth management of MFIs
- Expansion and commercialization of the industry
- Slow process of improving governance of MFIs
- Changing institutional culture and improving institutional capacities.
- Strengthening partnership between donors and governments to improve the environments of MFIs.
- Building capacity of target groups for easy implementation of financial mechanisms and training systems
- Lack of cooperation between MFIs and the traditional banking system to help improve financial capacities.
- Lack of adequate capital for MFIs
- High staff turnover due to low salary structures and absence of other incentives
- Technological advancements with its attendant cost implications for MFIs
- Client retention
- Competition from well-established banks and other financial institutions, including the poaching of skilled personnel from the MFIs.
- Lack of proper loan monitoring and supervision procedures
- Ineffective internal control systems in some MFIs
- Incidence of fraudulent practices
- Lack of access to business opportunities like markets, inputs and demand
- Interest rate disparities
- Problems associated with group animation, formation and dynamics especially due to the high incidence of illiteracy in our rural areas.
- High loan delinquency and default rates
- Absence of core competencies in majority of the MFIs

## **Conclusion**

Microfinance has evolved as an economic development approach intended to benefit the productive poor and the vulnerable in the urban and rural areas of our various countries.

The potential for growth of MFIs is without doubt and for the following reasons:

- The promise of reaching the poor
- The promise of financial sustainability
- The potential to build on traditional systems in our various countries
- The contribution of microfinance to strengthening and expanding existing formal financial systems
- The growing number of success stories, and
- The availability of better financial products as a result of experimentation and innovation

It is therefore pertinent that all stakeholders in the microfinance industry, especially the suppliers and the regulatory authorities adopt the right strategies, seize the abundant opportunities and put in the right mechanisms to face the challenges to help move the industry forward.