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Article

Who is reaching whom? Depth of outreach of rural micro finance institutions in Ghana

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Outreach of microfinance institutions has been saddled with the definition of who is poor specifically within the context of an individual's capability to access financial and non-financial services. This paper presents empirical results of the structure of the microfinance market in Ghana as per institutions and defines the market target of each of the institutions based on the socio-economic characteristics of the clients Using the Microfinance Poverty Assessment Tool, data on 2704 households comprising of 1104 and 1600 non-clients and clients respectively, are collected to compute the household level relative poverty scores. The computed scores unraveled the depth of outreach of each microfinance institution. Five broad categories of microfinance institutions where identified namely; Rural and Community Banks, Financial Non-Governmental Organizations, Savings and Loans Companies, Susu Associations and Collectors and Credit Unions. The study results showed that the rural and community banks and the financial NGOs reached out to all categories of clients ranging from the extremely poor in the lowest wealth quintile to the poor in the highest quintile. At the other end, savings and loans companies and susu collectors reached clients within the above average and highest quintiles, while credit unions reached out to clients from the average to the highest quintile. Among factors alluding to the different market niches include; source of funds, strategies for outreach and mission of the institution. The derived policy implication is to harness the relative market strengths of the institutions and design specific products to deepen each institutions capability.

Key words: Poverty, microfinance, clients, institutions, outreach and Ghana.

INTRODUCTION

Among major challenges facing a number of sub-Saharan African (SSA) countries today are reducing the extreme levels of poverty affecting an estimated 300 million people (UNDP, 2003), meeting the food needs of the fast growing population and harnessing available resources to meet developmental needs without compromising the sustainability of the environment. Growing and deepening poverty have compelled governments of many SSA countries to institute poverty reduction strategies (World Bank, 2003a).

Recognizing these challenges, the world body pledged itself to assist such countries in the Millennium Development Goals and Targets adopted by the United Nations in 2000. The first goal of "Eradicating extreme poverty and hunger was to be achieved by halving between 1990 and 2015, the proportion of people whose income is less than $1 a day and halving the proportion of people who suffer from extreme hunger" (UNDP, 2003). With such commitment from both rich and poor countries, the stage is set for the development of programmes and activities that will make these intentions possible. Among the public policies recommended for eradicating poverty and creating wealth is the expansion of poor people's "access to land, credit, skills and economic assets".

The concept of poverty as used in the study is based on the definition by the United Nations Development Report of 1990, which is 'pronounced deprivation which encompasses a wide range of issues including hunger, lack of shelter and clothing, lack of access to health care and education and inadequate or lack of access to policy making' (UNDP, 2000a). Poverty can be conceptualised as a composite of personal and community conditions. At the individual level, it is the lack of sufficient basic needs to satisfy daily livelihood. This then is largely related to unemployment and the inability to achieve a decent living from one's economic activities. It also implies lack of opportunities and choices of services basic to human

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development that lead to a long healthy creative life and the enjoyment of a decent standard of living involving freedom, dignity, self esteem and respect for others (UNDP, 2000b). The tag of being poor goes beyond economic deprivation and includes lack of access to education, health and other services, social exclusion and inability to be involved in some social activities such as decision-making at local and national levels. In this context, poverty is a contrast to acceptable well being in its broad sense which includes personal happiness, harmony, peace, and freedom from anxiety and access to material items including food, income, shelter, clothing, land and other physical resources. Community level poverty is manifested in the absence or low levels of facilities and services such as education, health, power, water and sanitation. Thus, at the level of the community, poverty is manifested in the (un)availability of basic services (Batse et. al, 1999). Poverty in these two dimensions becomes a disincentive to socio-economic development and creates conditions for discontent, apathy and despondency. Therefore, reducing poverty will involve both individual and community targeting through the provision of resources and restoration of individual rights and ensuring industrial growth, good governance, equity, efficiency and investment in public goods.

This paper presents results from a study on dimensions of poverty and the activities of selected microfinance institutions in poverty reduction in Ghana.

The study specifically sougth to:

i.) Assess the socio-economic status of households of clients and non-clients of rural microfinance institutions and government-oriented credit programmes.
ii.) Assess the level of poverty of households involved in rural microfinance institutions in relation to a national sample of non-clients.
iii.) Assess the depth of outreach of selected microfinance institutions.

Synonymous to cross country evidence of variation in outreach by type of institution (Zeller and Johannsen, 2006), this paper observes wide variations within country and more revealing among institutions in one category. This suggests an implicit weakness of measuring outreach of microfinance institutions on the premise of formal/informal institution. Different strategies of delivery mechanisms and more importantly resilience to conditions accompanying external funding sources that potentially distorts the market cuts across within and between categories of microfinance institution. The eminent policy implication is to draw into the fold activities of both formal and informal microfinance institutions and tap possible lines of linkages to harness the potential of microfinance.

Overview of strategies for poverty reduction in Ghana

In Ghana, various governments have recognised the implications of pervasive poverty for socio-economic and human resource development and have launched programmes over the years to address the situation (Government of Ghana, 2003a; Government of Ghana, 2003b). First, the 10-year Development Plan of Governor Guggisburg from 1920-1930, was meant to develop the infrastructure of the country. In 1951, the government launched the 10-year Accelerated Development Plan with the view to fast-tracking the socio-economic development of the country. Others that followed were the 7-year Development Plan (1961-1968) and the Five-year Development Plan (1975-1980).

In spite of these laudable programmes, the economy of the country continued to deteriorate partly because of political instability which did not make it possible for the proposed programmes to be carried through to achieve their expected impacts. Some of the outcomes of the inability to achieve the set objectives were worsened growth rate in gross domestic product (14% growth rate), inflation of over 100% and an overall deepening of poverty especially in the late 1970s and early 1980s (Alderman, 1994). In 1990 when the human development index (HDI) was first introduced, Ghana ranked 121st among the160 countries for which data were available (UNDP, 1990). In 1996, Ghana slipped to 174th out of nearly 200 countries and ranked 129th in 2003 out of 179 countries (UNDP 1997; 2000a; 2003). Although the position of Ghana declined within the period due to an increase in the number of countries covered within the last decade, the information reflected the general trend of low wellbeing in the country. As with a number of African countries in the 1980s and early 1990s, Ghana has become an aid-dependent country with an average budget reliance rate of about 40% every year being donor-funded. This has been primarily due to the decline in income from primary commodities which form the bulk of the country's export. Over the years there was also less investment in human capital compared to other countries at the same level of socio-economic development. In general, about 32% of the adult population have never been to school whilst some 25% of others had been to school but failed to obtain any certificate (Ghana Statistical Service, 2002; Oduro, 2001; World Bank, 2000). Anecdotal evidence points to the fact that a few well-educated Ghanaians also migrated to other African and Euro-American countries in a massive brain-drain.

In an attempt to kick-start the economy, various programmes were launched in the 1990s and the current programme for poverty reduction is one of the series. The programmes are:

1991: Making People Better-A Human Development Strategy for Ghana;
1994: The National Development Policy Framework (Vision 2020);
1996-2000: The First Medium Term Development Plan (MTDP);
2001: The Interim Poverty Reduction Strategy Paper (I–

PRSP; and
2002-2007: Ghana Poverty Reduction Strategy (GPRS).

The GPRS was launched after a wide range of consultations with government ministries, departments and agencies (MDA), NGO, civil society organisations and individuals from selected communities. The GPRS aimed, among others, to improve the living conditions of the poor by implementing programmes that will achieve the following objectives (Ghana, 2003a):

i.) Increase access to basic needs of life in addition to developing a strong human resource base to enable the poor identify and take advantage of opportunities.
ii.) Create conditions that will encourage the development of new ideas and the use of simple and reasonably less costly methods of production, processing, storage and marketing of goods and services to result in increased levels of production and employment.
iii.) Provide direct support to persons living in very difficult situations and gradually being excluded from the process of development while putting in place policies that will prevent new cases of deprivation; and
iv.) Ensure that the interest of girls and women are adequately considered in all actions and programmes.

Promoting micro-financing (MF) programmes is one of the strategies designed to achieve the broad objective of poverty reduction. This has led to the emergence of a number of institutions, including rural banks, which became involved in the implementation of micro-financing programmes. In 1996, a number of groups involved in implementing micro-financing projects came together to form the Micro Finance Action Research Network (MFARN) with the aim of playing an active role in policy discussion, formulation and implementation of programmmes related to micro financing in the country. The network consisting of the Association of Rural Banks (ARB), Credit Union Associations (CUA), Financial Non-Governmental Organizations (FNGO), Savings and Loans (S and L) and the Ghana Co-operative Susu Collectors Association (GCSCA) has become a formidable advocacy group in rural financing and poverty issues (Jones et al., 2000). In 1998, the group changed its name to the Ghana Microfinance Institutions Network (GHAMFIN). The objectives of GHAMFIN, among others, are to strengthen the capacity of microfinance institutions (MFI) through training to enable them improve upon their performance as well as sensitize government and stakeholders on issues relating to microfinance and through these contribute to the creation of employment opportunities, provide support for the poor and excluded, and empower women to participate actively in national development.

SOURCES OF DATA FOR POVERTY STUDIES IN GHANA

Historically, poverty studies in the country have been based on national expenditure surveys with emphasis on the distribution of income and inequality (Assefa, 1980; Ewusi, 1984). In the 1960s and 1970s the main method was using income to study welfare. This was influenced by the methodology that existed at that time. Since the 1980s, the analyses of poverty have principally focused on consumption using the concept of a basket of consumables (Ghana Statistical Service, 2000). From 1987, four living standard surveys have been conducted in the country, with the latest in 1998/1999.

Within the last decade, there have been attempts to improve upon the consumption approach to data collec-tion and the measurement of poverty at the household level. One of such approaches is the Micro-Finance Po-verty Assessment Tool (MPAT) of the Consultative Group to Assist the Poor (CGAP) (Henry et al., 2003). The method uses consumption data to construct a multi-dimensional index.

METHODS OF DATA COLLECTION

The survey covered the whole country based on client and non-client households, with the latter serving as a control group. For the survey, the country was divided into three namely, northern zone, consisting of the Upper West and East and Northern regions, the middle zone made up of the Brong Ahafo, Ashanti and Eastern regions and the coastal zone covering the Volta, Greater Accra, Central and Western regions. Respondents were then selected from each of the zones.

Selection of clients of MFI: The microfinance institutions were purposively selected based on consultations with ARB Apex Bank, FNGO, S and L, CUA and GHAMFIN regarding the activities and the performance of their members. Based on the discussion, 16 institutions were selected from the northern, middle and coastal zones. In addition, a group using Susu (a concept used in Ghana for the mobilization of resources from individuals and groups. It involves an individual or a group making daily/weekly contributions to a collector. At the end of an agreed period, the client receives the accumulated amount or is credited with it) methodology to mobilize funds was selected, giving a total of 17 MFI.

Among the factors that informed the selection of the microfinance institutions were variety in the type of MFI (rural banks, credit unions, FNGO and savings and loans), their objectives in micro-financing, the different programmes being pursued, location and the age of the institution. For the purpose of the study, MFI in the northern zone were over-represented because of the pattern of poverty in the country which made it imperative to understand the capacities of institutions in that zone to reach the poor.

Within the coastal zone (Greater Accra, Western, Volta, and Central regions) clients of four rural banks (RB), one credit union (CU) and two financial non-governmental organizations (FNGO) were identified and selected. In the middle zone (Brong Ahafo, Ashanti and Eastern), two rural banks, one CU, and one FNGO were targeted. From the northern zone (Upper West, Upper East, and Northern), three rural banks and one FNGO were selected.

The institutions studied relied on funds from their own resources, government funds channeled through either the District Assembly Common Fund (DACF) or the Ministry for Women and Children's Affairs, donor sources such as International Fund for Agricultural Development (IFAD), the World Bank and other bilateral agencies.

Selection of control group (non-clients): As part of the MPAT methodology, a sample of non-client households was selected. The rationale was to compare the profile of the households of MFI clients to the households of non-clients as inherent in the M-PAT. The data from this sample was used to construct poverty profiles

Table 1. Variables used in constructing poverty index.

Components	Indicators
Geographical location	Urban or rural location in rural savannah
Food Security and vulnerability	Coping strategy: frequency of reducing number of meals
Quality of the house	Index for type of ownership, access to water, electricity, quality of roof, walls toilets, etc.
Assets of the household	Motorcycle, bicycle, TV, stereo, radio, fridge, stove, sewing machine, fan, iron, etc.
Access to basic needs	Time (in minutes) to the nearest secondary school and pharmacist.
Education	Literacy and level of schooling of HH head, per cent of adults who have completed primary schooling, ratio of literate adults
Occupation	Number of adults self-employed in food crop agriculture and distance to the nearest food market.
Expenditures	Clothing and footwear expenditures per person.

against which the results from the client households were compared. With the assistance of the Ghana Statistical Service and using results from the 2000 census of population and housing, 70 enumeration areas (EA) were randomly selected from the three zones. Each selected EA consisted of 17 or 18 households, and this gave a potential sample size of between 1,190 and 1260 households.

Method of data analysis

The study used the Microfinance Poverty Assessment Tool (MPAT) developed by the Consultative Group to Assist the Poor (CGAP) to analyze the data. The approach, which is based on principal component analysis (PCA), combines various welfare variables including housing conditions and characteristics, food security and vulnerability, livestock and consumption assets to calculate a household relative poverty index to construct a multi-dimensional poverty index. For comparison, household indices are arranged in ascending order and classified into terciles or quintiles. The method has the advantage of collecting cross-sectional data which can be used to construct a multi-dimensional poverty index (Henry et al., 2003). As an indicator-based method, the approach allows one to compare the profile of a control group to a national sample in a chosen activity. Using the PCA also ensures the calculation of specific poverty indices or scores for each household. The variables applied in the computation of the poverty score are summarized in Table 1.

A computed household poverty score normally ranged between ±3. For this study, the computed household poverty score for the non-client household ranged between -3.05 and +2.65. A score of zero denotes an average level of poverty, with the higher and lower scores connoting relatively less poor and extreme poor respectively. Through the household. Any deviation in the pattern of the distribution connotes a difference between the client and the non-client households. approach, non-client households are equally divided into five (quintiles) and provides the basis for comparison with client

RESULTS

Poverty profile of non-clients

The results from the control group show first, a core area of high well being in the Greater Accra, Eastern and Ashanti regions. These are ringed by relatively better-off areas of well-being consisting of Volta, Brong Ahafo, Western and Central regions. In this second group is the Central region which reported the highest level of poverty similar to those from the 1998/99 Ghana Living Standards Survey (Ghana Statistical Service, 2000). Overall, respondents from the three northern regions reported the highest levels of poverty. The worst was the Upper East region (Figure 1). This poverty profile from the study by region is similar to what has been observed from GLSS 4. The results from the non-client households are used as control against which the profile of client households are compared and through that the outreach of the micro-financing institutions surveyed.

Profile of clients and non-clients

An aspect of the MPAT methodology is to compare the quintile distribution of households of clients of micro-finance institutions to the profile of a control group. The results indicate that compared to non-client households, households of clients of MFI were in the non-poor category: over 30% of the clients were within the highest quintile and 23% in the above average quintile (Figure 2), giving a total of 54% in the two highest quintiles, compared to the expected 40% for the non- client households. The proportion of MFI households in the lowest two quintiles is 30%, with 21% in the lowest quintile. What emerges is that the profile of households of clients of MFI is slightly skewed towards the higher quintiles.

Outreach of institutions

As the survey covered five MFI, it is possible to assess

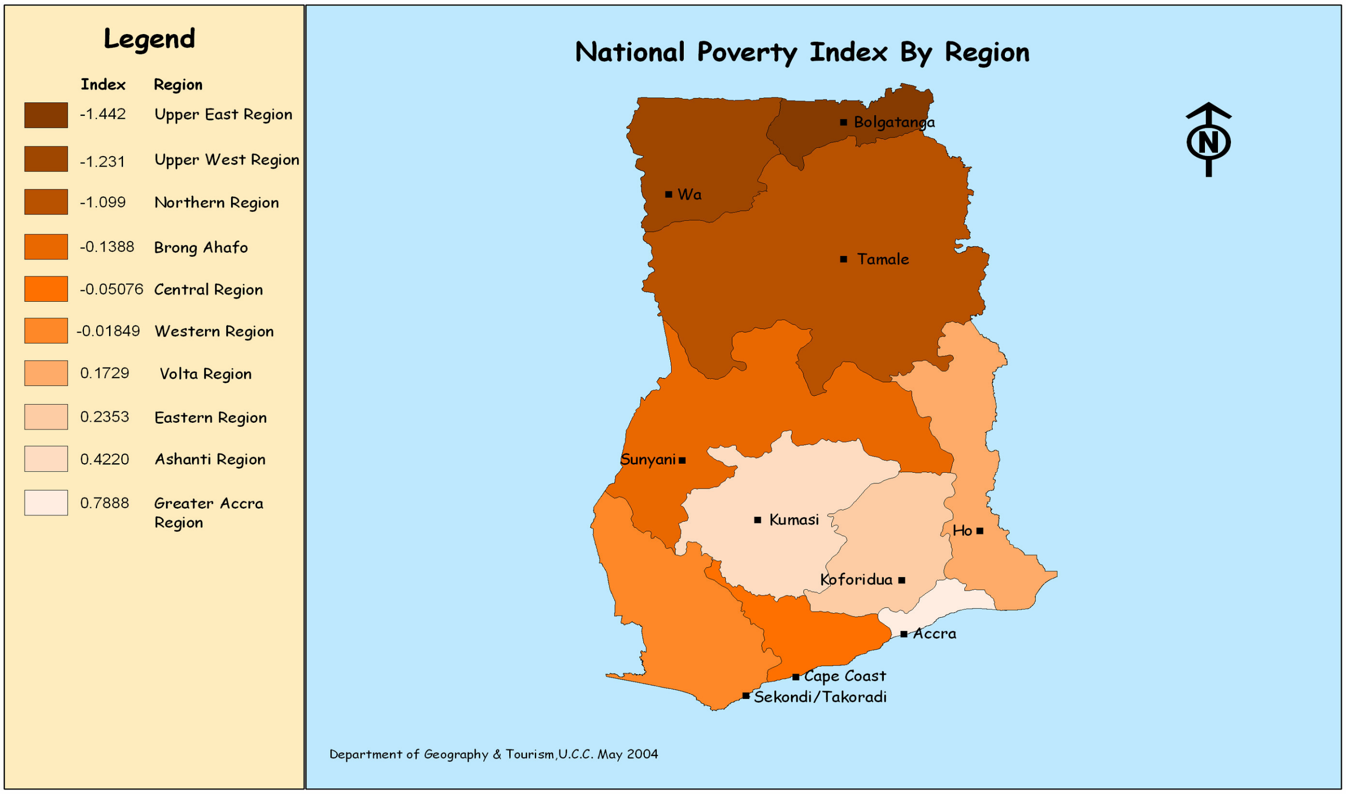

Figure 1. National poverty index based on control population.

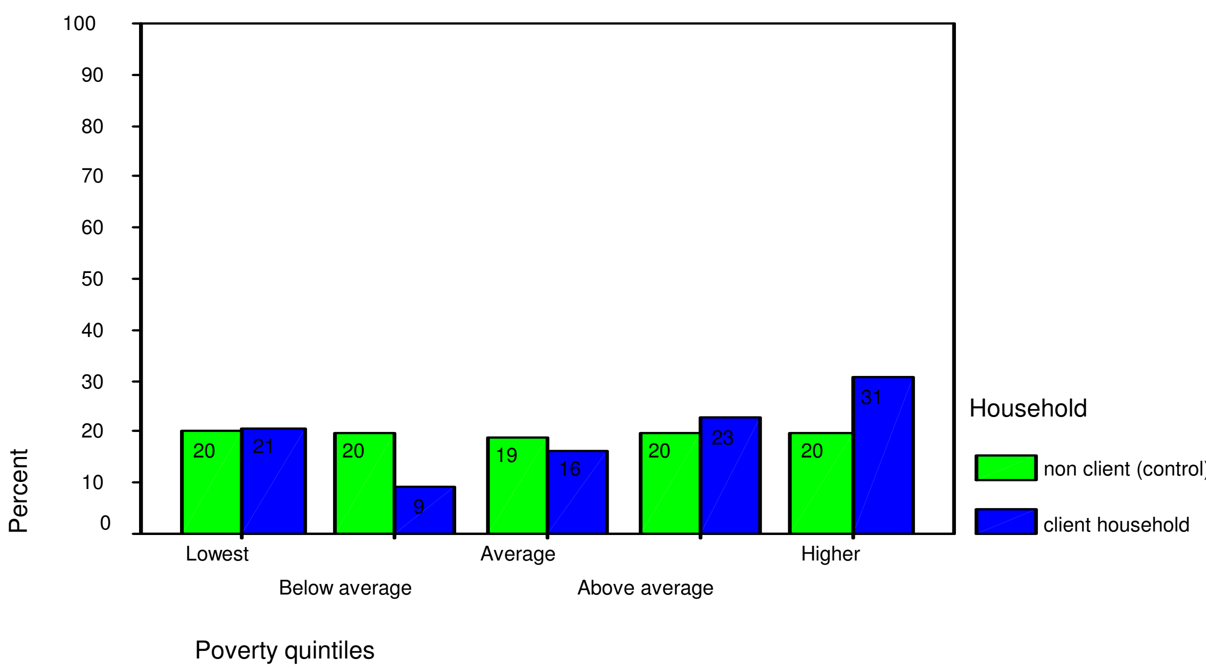

Figure 2. Pattern of poverty of the client and non client samples.

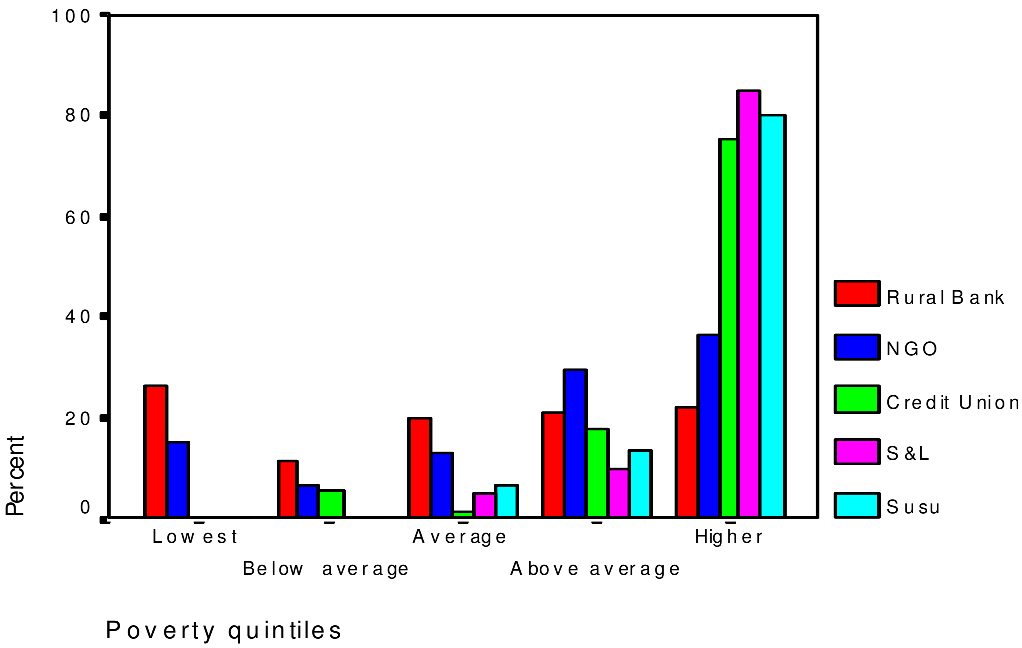

Figure 3. Poverty outreach by type of financial institution.

the depth of outreach of the institutions. The results, shown in Figure 3, reveal three broad patterns. The first is that clients of the rural banks and FNGO studied were represented in all the quintiles. The clients of the rural banks were more spread out among the five quintiles than those of the FNGOs. The patterns for the FNGO, on the other hand, tilted towards the average to the non-poor categories. The second broad pattern, characteristic of clients of savings and loans, credit unions, and susu groups, shows that 80% or more of their clients are in the highest quintile and that household of clients of the savings and loans and susu institutions are not represented in the lowest two quintiles.

The pattern of outreach is presented statistically in Table 2 and also shows the indices of poverty by source of funds. The indices for the rural banks ranged from -1.514 to 0.767 and that of the FNGO from -1.187 to 0.937. This implied that the indices for the banks, although had a wide variation, were tilted towards the lower end of the distribution.

For the study, if the source of funds was from the resources of the institution through mobilization of a loan, this was classified as 'own programme'. If the institution operated a programme on behalf of a government agency it was termed as 'government programme' and funds from donors (bi-lateral and multi-lateral) or an international FNGO it was classified as 'other programme'. Based on the sources of funding and the number of programmes pursued, the institutions exhibited the following characteristics (Table 2):

i.) Nine of the institutions operated programmes based solely on their own resources.
ii.) One rural bank did not have a programme of its own and only disbursed funds on behalf of government; and
iii.) Six rural banks and two FNGOs operated their own programmes as well as programmes on behalf of either the government or donor institutions.

Among the six rural banks operating more than one programme, three strands of performance could be observed. In the first category are three institutions with clients in their own programme in higher quintiles than those of the donor and government programmes. Two of these rural banks are in the coastal zone. For the second group, made up of two institutions, the indices of poverty for their own programmes tilted towards the lower quintiles than those of the government. These two rural banks are located in the middle zone. In the third category, there is no difference in the poverty profiles of the clients for their own and the government supported programmes. Therefore, there was no definite pattern in the outreach of 'own' programmes and those undertaken on behalf of government or donor institutions.

The mean poverty scores for the five broad institutions and by location are shown in Table 3. These ranged from 0.026 among the nine rural banks to over 1.0 for the two credit unions (1.103), the only S and L (1.204) and the single susu group (1.226). In the middle and coastal zones, the outreach of the rural banks is about the same. For the FNGOs, there was marked variation from the coast to the north. MFI in the northern zone, irrespective of type, recorded indices of less than zero (-1.514 to -0.722), implying that in the zone, the institutions served

Table 2. Poverty index by institution and programme.

Micro finance institutions	Programmes	Poverty index	Average poverty index
Rural bank A	Government	0.436	0.436
Credit union A	Own programme	1.057	1.057
Rural bank B	Own programme	- 1.513	
	Other programme	- 1.515	- 1.514
Rural Bank C	Own programme	- 0.722	- 0.722
FNGO A	Own programme	- 1.187	- 1.187
S and L	Own programme	1.204	1.204
FNGO B	Other programme	0.924	
	Own programme	0.949	0.937
Rural bank D	Own programme	0.503	
	Government	0.274	0.389
FNGO C	Own programme	0.238	0.238
Rural bank E	Own programme	0.023	
	Government	0.665	0.344
Rural bank F	Own programme	0.767	0.767
Rural bank G	Government	- 1.374	
	Other programme	- 1.097	- 1.235
	Government	0.797	
Rural bank H	Own programme	0.561	0.679
	Own programme	0.709	
Rural bank I	Own programme	0.974	
	Government	0.555	
	Government	0.365	0.650
Credit union B	Own programme	1.167	1.167
	Own programme	0.483	
FNGO D	Own programme	1.057	
	Own programme	0.957	
	Own programme	0.642	0.785
Susu	Own programme	1.226	1.226

Table 3. Mean poverty indices of institutions.

Micro finance institutions	Number	Mean poverty index
Coastal rural banks	4	0.561
Middle rural banks	2	0.511
Northern rural banks	3	-1.157
All rural banks	9	0.026
FNGOs in coastal	4	0.989
FNGOs in middle	2	0.694
FNGOs in northern	1	-1.187
All non- governmental organisations*	4	0.426
Credit unions	2	1.103
Savings and loans company	1	1.204
Susu group	1	1.226

*Two of the FNGO operate in more than one region/zone.

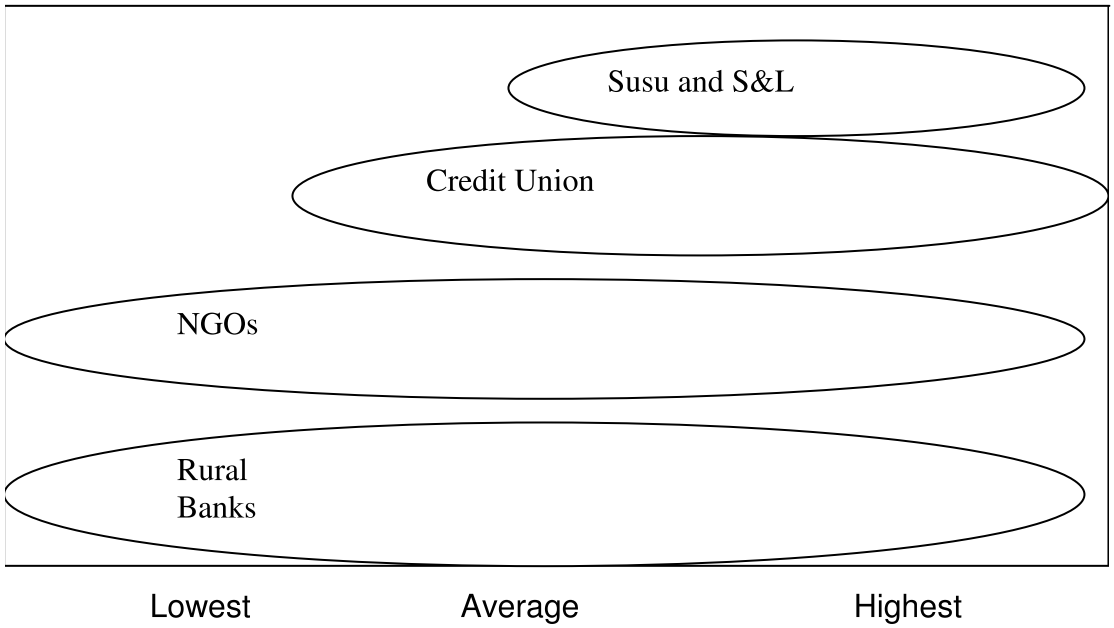

Figure 4. Spheres of Operations of MFI.

more people in the lowest quintiles than any where else. Thus, in the northern zone where poverty levels are high, outreach of MFI is mainly to those in the lowest quintile.

With their in-built system of collecting monies from their clients and loaning them out, credit unions, S and L and susu groups have as their clientele people in the average and above average categories. Rural banks, on the other hand, generating income from other sources and fulfilling a mandate of corporate responsibilities to the comm.-unities in which they operate, are in a position to set aside some money to lend out. From the results, the rural banks and FNGO were able to cover people in the lowest quintiles than the other three institutions.

Based on the patterns of outreach of the MFI, three general spheres of operation can be identified (Figure 4). The first is the sphere of the rural banks and FNGO which cover people in all the quintiles. The second category is the credit unions whose clients are in the below average to the high categories. At the other extreme are the savings and loans and the susu groups. Their clients tended to be in the average to the highest quintiles, partly as a result of the nature of their operations. With savings as one of the conditions for consideration for the award of loans, clients of such institutions will obviously be within the high quintiles.

For the future of MFIs in the country, these spheres which are emerging will need to be explored to the advantage by enhancing the strengths of each of the groups. Rural banks and FNGOs can be encouraged to concentrate more on the average to the low categories of the population in view of their potential to reach clients with diverse poverty profiles while the credit unions can concentrate on certain clientele category based on their objectives.

DISCUSSION

A number of varied factors accounted for who is reaching whom therefore the need to identify the strategies being used by these different types of MFIs reaching different markets of the poor population. While there are some general characteristics associated with all the institutions, some variations were observed. This section examines the strategies adopted by the MFIs to select potential clients.

The rural banks reportedly used two strategies for the selection of clients, namely the peer-selection group-lending scheme and the committee approach. Among the attributes of the first approach is that peers involved in similar economic activities come together and select individuals they would want to work with. The person identified should not have been previously indebted to the bank and the members feel comfortable working with one another. After the formation of a group, the project officer animates the group, assesses the potential of its members and recommends the group for consideration and funding. All the rural banks prescribed forced savings for their own programmes and a client may be required to save for a period ranging from same day to six months. In some cases, the group is expected to complete entire training modules before loans are disbursed.

With members selecting those they wish to work with in the peer-selection approach, the very poor are not likely to be selected since they will not be involved in any economic activity and may not be considered as people who have the capacity to repay loan. The second condition of savings before disbursement will also eliminate the very poor. Thus, by the nature of the approach, the poor are not likely to be covered in loan disbursement schemes. This may partly account for the pattern observed among the potential clients of rural banks. The few banks which showed better outreach than the rest in terms of reaching the poor are those that are located in relatively poor areas and deal with poor people even among those in the above average categories.

The second approach is basically for government and donor-supported programmes. Under this approach the short listing of potential clients is by a committee consisting of technical advisers, representative of the district assembly and loan officers of the rural bank and representative of the donor institution. Beneficiaries of programmes channeled through rural banks are normally target groups approved by the district assembly and/or members of the donor institution or government department supporting the programme. One feature of this approach is that the committee charged with the disbursement of the loan is independent of the bank. The purpose of the loan, rather than the background of the clients, influences the characteristics of the group.

This approach has the potential of reaching the poor as it targets members of a community with certain characteristics for support. As loans targeting the poor, the donors are able to liaise with community members to identify some of the people who need support. However, reports from the loan officers and other officials indicated that government-supported loans tended to be subjected to political and social interferences. The interference of government officials and politicians in the selection of clients also affects the recovery of the loans, since it creates the impression that such loans are for political patronage and, therefore, need not be paid back. For the objective of supporting the poor to be achieved, there is the need to reduce, if not eliminate political interference in the selection of clients. Parameters should be established and the committees set up to review the application of potential clients should be given a free hand.

The FNGO also uses the peer selection approach as previously outlined. In addition, they set some conditions. For instance, one FNGO expected potential clients to save up to 20% of the required loan within 3 months with any bank or financial institution while another FNGO received in-kind savings such as grains. In addition, some of the FNGOs offered in-kind loans such as the Inventory Credit Scheme for agriculture and training programmes. This FNGO required an initial contribution in the form of stored produce. After this, potential clients are given loans in the form of inputs or cash and they re-pay in cash or kind. The strategy of this FNGO was found to have been designed to overcome the above constraint of the segment of the poor population who could not mobilize financial resources for initial savings.

The assessment of clients is based on the economic activity being pursued. For grain farmers, it provides storage facilities making it possible for them to store their surplus and selling them during the lean season when prices are high. The approach of this particular FNGO is unique and suits the rural environment as well as the economic activities and conditions of the clients in the areas it operates. Hence, its approach offers an alternative model for granting support to the poor.

Susu as a system derives its origin from the traditional group insurance. A group of people agree to contribute a certain amount based on their daily cash sales over a given period (Jones et al., 2000). This implies that the members must be involved in an economic venture. Once a member satisfies the conditions set out by members of the group, he/she qualifies for a loan. Repayment of the loan is spread out over a period and the duration is influenced by one's daily contributions. Thus, this approach is basically self-selective and based on the willingness of an individual to become a member.

The concept of credit union is that one should belong to a group, save with the union which will then qualify the individual to access a loan from the union. One criterion then is membership of the union and this is the same with savings and loans institutions. Some of the CUs charge registration fee and each member is expected to save within a certain time frame before qualifying for a loan. That is, credit unions operate a share capitalization system which is compulsory for every member. A client applying for a loan will be expected to provide information on the intended project after which the individual is interviewed. Once these requirements are met the member qualifies for a loan. Clients who qualify are given training in issues such as financial management and record keeping. These aspects of the CU partly explain the occupational background of the clients of the credit union studied.

As with the Susu, the conditions for membership in a credit union will not make it possible for the poor to be involved in their activities. Therefore, by its nature, CUs and susu are not avenues for supporting the very poor. To reach the poor, credit unions will need to change their strategy and relax some of their conditions, such as compulsory savings for prospective clients.

The observed patterns of the poverty profile of clients of MFIs when compared to that of a control group, present challenges to the future of micro-financing in the country. The poverty profile of the clients of government- and donor-supported poverty-reduction programmes that were executed by rural banks on behalf of those agencies were similar to those of the banks themselves. This may be attributed to similarities in the approaches adopted for the selection of clients as some of the rural banks have adopted the strategies introduced by some of the international non-governmental organizations (e.g. the strategies of Freedom from Hunger). Among the challenges, therefore, are how the donor-supported funds can target and advance loans to more people in the lowest quintiles than the rest of the sources. The second is the re-orientation of MFIs in the country such that the base of their clients will tilt more to people in the average to the lowest quintiles. The approach of one of the FNGOs provides an example of what can be done. The strategy of providing their clients with inputs and receiving re-payment in the form of produce is worth exploring and using in resource poor areas where the economic base is agriculture and the prices of such produce fluctuate widely between harvest time and the lean season. It will help the poor store their produce and get better prices for their produce during the lean season. Although in general, in-kind credit has its own short-comings, the strategy provides another alternative, as in the case of the FNGO, some clients receive cash and repay their loans in cash.

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