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Ghana: financial services for women entrepreneurs in the informal sector

Background

The Ghana Microfinance Institution (MFI) Action Research Network brings together organizations interested in providing financial services to the poor in Ghana. With World Bank support, the network carried out this study which provides brief descriptions of the innovations that informal, semi-formal, and formal MFIs have developed in providing financial services to female entrepreneurs in Ghana. It also makes recommendations on how such services can be strengthened and improved.

Financial delivery mechanisms targeting women

For socio-cultural and other reasons, women, as girls, would not have had access to education, and those who did would have accessed lower levels of this resource. This lack of access to education and low literacy levels has hampered their ability to:

- acquire vocational skills for self-employment;
- access information on support services for improving their business; and
- earn an income and, thereby, engage in capital accumulation.

Given such limitations, rural women are mostly engaged in mainly subsistence farming activi-

ties, and low-income generating activities, while poor urban women operate marginal enterprises in the informal sector. These activities yield little or negative returns on investment because the enterprises experience little or no growth during the lifetime of their owners. Consequently, women dominate the poor class and the majority of those that MFIs serve. Some of the MFIs target productive poor women specifically because doing so has proved to be the most direct means of reducing poverty and increasing the welfare of the family as a whole.

In MFI programs that target both men and women, the average loan size for women's businesses is smaller than that for men. In the rural areas, relatively few MFIs are lending to women entrepreneurs. Unless an MFI has as a policy measure to set aside a significant proportion of loan funds to women, the volume of loans lent to men is always going to be higher than those made to women. However, in many instances, loan repayment among women borrowers is often higher than for the men.

Sources of financial services for women include informal suppliers such as Susu collectors and ROSCAs, and semi-formal suppliers such as NGOs, and Community Based Organizations (CBOs). Formal suppliers include Savings and Loans, Rural and Community Banks, and Credit Unions. In addi-



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tion, public sector programs have developed financial and non-financial services for their beneficiaries.

Financial and Non-Financial Services

Savings mobilization and credit provision are the core services provided by this diversity of institutions. Interest accrues on savings accounts at a rate of 25 per cent to 35 per cent per annum. Interest rates on loans begin at subsidized rates of 20 per cent and go as high as commercial rates of 50 per cent.

Non-financial services such as training in business development, entrepreneurship development, skills development, and welfare services such as family planning are provided by some of these MFIs. They have a capacity building objective aimed at sustaining micro/small scale entrepreneurs, improving their efficiency in the utilization and quality of repayment of loans disbursed, and the general well-being of the poor.

Strengths of Current Programs

In order to ensure sustainability, and responsiveness to the needs of their clients, MFIs use a number of approaches to deliver their services. The approaches include group methodology, peer pressure, responsive disbursement mechanisms, and savings as cash collateral. These strategies have helped to ensure high loan repayments from clients, and have secured the quality of the MFIs' credit portfolios.

Constraints to Current Programs

The majority of MFIs face operational constraints, which affect their ability to scale up their level of financial service provision. These constraints include a weak

capital base; poor credit portfolio management systems; inadequate management information systems; limited loan funds; and lack of logistical support for effective monitoring and follow-up.

Rural versus urban strategies

In meeting the challenges of gender-based outreach and financial viability, distinctions can be made between strategies used to reach rural and urban women on one hand and by Ghana's Northern and Southern MFIs on the other hand.

Rural Approaches

Micro-financial institutions that target rural women use the group lending mechanism to ensure joint liability for securing loans. This strategy is cost-effective in increasing the number of clients to credit staff ratio. This is important in order to reduce the cost of reaching isolated rural communities. Group development training also equips rural women with decision-making and leadership skills. They select group members, make loan decisions, and are active within MFI operations.

Urban Approaches

Urban-based MFIs tend to focus on individual lending since urban communities are not as close knit as rural ones. Clients of urban MFIs usually go to the institution for financial services. In rural areas, however, it is the MFIs who usually go to the communities. Urban MFIs, therefore, tend to have lower transaction costs.

Northern and Southern MFIs

All the various categories of informal, semi-formal, formal financial suppliers and public sector pro-

grams are found in both Northern and Southern Ghana. Privately owned, for profit MFIs such as Savings and Loans, however, are found predominantly in Southern Ghana. This is due to the high density of the population and economic activities, which ensure low transaction costs. Northern Ghana has a higher concentration of subsidized public sector programs.

Innovations

Linking Susu Collectors with Banks

Susu collectors operate throughout rural and urban Ghana as independent agents. Traditionally, they have been male. However, a few women have joined the profession, although there is no information on their numbers or proportions. The Ghana Co-operative Susu Collectors Association, (GCSCA) established in 1990, has been trying to mobilize, organize, and regulate the operations of Susu collectors whose activities are sometimes fraudulent. The GCSCA has identified the objectives of Susu Collectors as follows:

- providing mobile savings collection services for individuals and groups in urban and rural areas;
- providing appropriate financial intermediation for Micro/Small-scale Enterprises (MSEs) and Informal Sector Enterprises (IFEs) who cannot leave their wares;
- inculcating a savings habit among the rural and urban poor;
- providing an opportunity for financial intermediation between the formal banking sector and micro/small scale entrepreneurs; and
- providing individuals with self-employment opportunities as Susu collectors.

Savings Mobilization

The normal arrangement for mobilizing savings deposits from clients is for the Susu collectors to collect a pre-determined installment of money on a daily or weekly basis. At the end of a cycle of about thirty days, an accumulated sum is paid to the client, less one day's deposit as commission. In an attempt to provide customized service, most Susu collectors begin mobilizing daily deposits starting from noon each day. Timing in this manner provides the clients with an opportunity to transact business and earn some income before saving. This strategy is very convenient for the rural and urban poor women whose income is too low to deposit large amounts of money with the formal banking institutions.

Market centers are locations with a large density of enterprises, especially those operated by women. They provide substantial business opportunities for Susu collectors at low transaction cost. The funds mobilized each day by Susu collectors are placed in safes at home and paid to a nearby commercial bank daily. Susu collectors sometimes extend an "advance" to clients who save regularly and consistently. These "advances" are usually needed for meeting immediate working capital shortfalls, or to meet personal expenses such as school fees, medical bills etc.

Collaborative Arrangements with Financial Institutions

Some financial institutions and NGOs are currently developing collaborative arrangements with Susu collectors. These institutions include the Nsoatreman Rural Bank, the Agricultural Development Bank, Citi Savings and Loans, and Action Aid Ghana.

NSOATREMAN RURAL BANK (NRB)

In the NRB trial scheme, the bank lends at a concessionary rate to selected Susu collectors who, in turn, on-lend the funds to their clients and receive a fee from NRB for this service. The NRB and the Susu collectors agree on the level of commission that is charged on the interest rate paid on depositors' savings. In its initial on-lending pilot in 1997, NRB allocated c1.5 million (approximately US\$ 732) in 1997 to each of four Susu collectors.

AGRICULTURAL DEVELOPMENT BANK (ADB)

Through its Sunyani branch in the Brong Ahafo Region, the ADB has developed an arrangement with Tata Susu Special. Savings mobilized by the TSS are deposited with the bank, which provides a special window for the collectors during regular banking hours. Presently, it is planning to expand this arrangement with Susu collectors in the large rural towns near Sunyani.

CITI SAVINGS AND LOANS COMPANY LIMITED

Citi Savings and Loans has in place a pilot on-lending scheme with the Greater Accra branch of the GCSCA. In this scheme, Susu collectors having accounts with any of the three branches of Citi Savings and Loans in Accra are able to obtain short-term loans. The loans are designed to meet shortfalls in meeting the demand for advances requested by their clients.

ACTION AID GHANA

Action Aid's collaborative arrangement with Susu collectors in Northern Ghana provides a linkage strategy for informal financial in-

termediation in rural communities. In this scheme, communities participating in the Action Aid Credit program in Bawku, Cheriponi and Tamale select Susu collectors. These Susu collectors provide clients with doorstep services for saving and repaying loans disbursed by Action Aid.

Non-governmental organizations

FREEDOM FROM HUNGER (FFH)

Freedom from Hunger is an international NGO that collaborates with six Ghanaian MFIs running credit-based poverty reduction programs which are targeted at women. Criteria for selection are:

- the MFI should demonstrate some level of managerial and administrative strength necessary to support the program;
- the MFI must have in place or be willing to put in place an outreach mechanism which is adaptive and responsive to the needs of women who normally lack access to institutionalized credit;
- the MFI must be willing to let its credit personnel undergo training in the village banking credit with educational methodology promoted by FFH.

The six institutions FFH works with are:

- Lower Pra Rural Bank—Western Region
- Brakwa Rural Bank—Central Region
- Nsoatreman Rural Bank—Brong Ahafo Region
- Nandom Rural Bank—Upper West Region
- Women's World Banking/Ghana—Greater Accra Region

Builsa Community Bank—Upper East Region

Objectives

The program objectives of FFH are to:

- make credit available to the poorest women;
- provide health and nutrition education;
- provide family planning education and information; and
- build local MFI capacity through training and technical support.

Target Clientele

Freedom From Hunger's program activities with these MFIs are targeted solely at women for the following reasons: (i) the incidence of poverty is highest among women; (ii) an increase in the incomes of women will have more impact on the family; and (iii) income generation activities pursued by women require low investment inputs.

Operational Mechanism

Freedom From Hunger trains assigned credit personnel of the collaborating MFI in micro-enterprise development, health and nutrition

education, family planning, financial management, budgeting and planning.

The MFIs, in turn, identify women's groups and provide them with training, as well as other support services. Group members are required to make mandatory savings, (minimum amount determined by the group), for a minimum of six weeks.

Loans are provided to the women at an annual commercial interest rate of between 48 and 51 per cent. Their savings deposits are used as cash collateral. The loan duration is 16 weeks with repayment required in weekly, equal installments. In all its collaborative arrangements with MFIs, the on-time annual repayment rate in village banks has been 98 per cent to 100 per cent.

Performance Standards and Ghanaian MFIs

Generally, it is mostly the formal MFI suppliers that adhere to statutory performance standards such as capital adequacy ratios. Most of the informal and semi-formal MFIs have not established performance

standards. There is, however, growing recognition by these institutions of the importance of adhering to performance standards to ensure their own sustainability. Regarding impact assessment issues, some MFIs conduct periodic internal monitoring and evaluation reviews to assess the impact of their operations on targeted clientele.

Challenges for MFIs

Micro-finance institutions in Ghana face a number of challenges in terms of providing appropriate, responsive and adaptive financial services to the poor, especially women. These challenges have to do with the macro-economic context, institutional development issues, and accessing of loan funds. But another important challenge is that of the need to develop appropriate and responsive delivery mechanisms to meet the needs of poor women entrepreneurs.

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