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**Assess the economic impact of Microfinance Institution on women in Tamale: a case of Baobab Microfinance Company**

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**Abstract**

Microfinance has played a critical role in poverty reduction within its catchment area. A viable microfinance institution helps improve economic status of beneficiaries. This study ascertains the purpose of loan and income generating activities of female clients of Baobab Micro finance Company Limited. The study used The design enabled the researchers to obtained extensive data from women's who receives microfinance service from Baobab Microfinance Company Limited in Solidarity groups at Tamale Metropolis. The sample size for this study was 100 women determined using Slovin's formula for sample size determination. The results showed that, 98% of BMC clients confirm that their diet had improved for the past three months whilst only 18.48 % of non-clients confirmed that their diet had improved. Results from the survey revealed that 22 % of respondents obtained loans between GHC1 – 500, while 10 % and 6 % of respondents obtained loans between GHC501-1000 and GHC1001 – 1500. The study recommended that, more avenue of micro credit should be made available to women groups since it has the capacity to improve their household decision making ability.

**Keywords:** economic impact, Microfinance Institution, women, Baobab Microfinance Company, Tamale.

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## INTRODUCTION

Microfinance organizations provide financial services like savings and credit services to finance the informal sector in developing countries. They grant loans to small and medium enterprises to assist them engage in productive economic activities. The relationship between microfinance services and the livelihood of beneficiaries has been investigated for more than a century. From the above empirical studies, there is a strong positive relationship between micro finance services and the livelihood of women groups. The general problem is that available literature does not explore the specific quantities of microfinance service that will improve the livelihoods of beneficiaries. Literature dwells on factors hindering financial performance of SMEs, which is not an absolute measure of growth. The specific focus of this study therefore was to find out how micro finance services affect the livelihoods of beneficiary household because the growth of the beneficiary's businesses should have a trickledown effect.

The study was conducted at Baobab Microfinance Company Limited with its head office located at Tamale Metropolis. The Company currently has four branches and a mobilization centre. The branches include Zogbeli, Yendi, Bimbilla and Salaga whilst the mobilization centre is located at Kalpohini. There are eighty one (81) permanent staff and a client base of about fifteen thousand (15,000). The management and staff of the organization desire to know the extent to which their micro credit is influencing the livelihood of women group positively and therefore the final document would be shared with the board of the organization.

### Research Objectives

- ✓ To ascertain the purpose of loan and income generating activities of female clients of Baobab Micro finance Company Limited

### Research Questions

- ✓ What income generating activities are clients of Baobab Microfinance institutions engage in?

## LITERATURE REVIEW

### Definitions of Microfinance

Republic of Ghana (2006) defines “Microfinance as the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients”.

Microfinance covers the provision of financial services and the management of small amounts of money through a variety of products and a system of intermediary functions that are aimed at low income consumers. It comprises loans, savings, insurance, transfer services and other financial products and services. Microfinance is thus one of the critical dimensions of the wide array of financial tools for the deprived, and its collective role in development (United Nation, 2005).

This definition was highlighted by Asaima and Osei (2007) as providing financial services including, savings, micro-credit, micro insurance, micro leasing and transfers in relatively small transactions intended to be available to micro-enterprises and to low-income households. Microfinance may be complemented by non-financial services, particularly training, to improve the ability of clients to employ the facilities effectively. Solidarity lending reduces the costs to a financial institution related to evaluating, managing and collecting loans, and can eradicate the need for collateral. There is a fixed cost related with each loan delivered, a bank that bundles individual loans together and permits a group to manage individual relationships can realize substantial savings in administrative and management costs (Armendáriz de Aghion & Morduch, 2005).

Several microcredit institutions use solidarity associations essentially as a method of shared responsibility. They will take any practical action to collect a huge bad loan not just from the individual member, but from any member of the group or association with the ability to reimburse it. But Yunus has always rejected this concept, saying that whatever moral obligation may pertain among group members, there is no formal or legal form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member (Yunus, 2006).

## METHODOLOGY

The survey adopted a research design to assess the economic impact of micro credit on the women beneficiaries in Tamale Metropolis. The design enabled the researchers to obtain extensive data from women's who receive microfinance service from Baobab Microfinance Company Limited in Solidarity groups at Tamale Metropolis.

The total number of Associations (women groups) is about two hundred and fifty (250). One hundred (100) Associations (Groups) were simple randomly selected and one (1) woman was simple randomly selected to give a sample size of one hundred respondents. The sample size for this study was 100 women determined using Slovin's formula for sample size determination.

Moreover, in order to remove proportional biasness, ninety-two (92) questionnaires were administered to the control group of similar economic characteristics.

Primary and secondary sources of data were used in gathering data. Primary data was taken from the research instrument – questionnaire while secondary data source included; books, newspapers, journals, previous research, government reports and the internet.

Both quantitative and qualitative data were generated and analysed through questionnaires. Statistical software programmes, SPSS was utilized.

## RESULTS AND DISCUSSIONS

### Ages of Respondents

**Table 1: Age Distribution of Respondents**

Ages of Respondents (Years)	Clients		Non Clients	
	Frequency	Percentage	Frequency	Percentage
16-25	3	3	12	13.04
26-35	41	41	28	30.43
36-45	46	46	18	19.57

46-55	8	8	30	4.35
55 and above	2	2	4	32.61
<b>Total</b>	<b>100</b>	<b>100</b>	<b>92</b>	<b>100</b>

**Source: Field Survey (2018).**

Age of respondents was converted into a 5-category ordinal rank. Employing a categorical variable rather than a continuous variable was deemed appropriate as some women were not willing to reveal their ages or did not know their exact ages.

The active years represent 87 % of the respondent (that is the ages between 26-35 and 36-45 years) with only 2% between the ages 55 and above. The age distribution is very good for Baobab Microfinance Company Limited as it would afford the Company the needed platform to continue to lend to their clients all other things been equal. However, the control group have majority of the respondents heading into the retirement age. This perhaps explains why most of them were not being given any microcredit.

### **The Number of Years the Association has Existed**

**Table 2: The Average Age of Group Association**

Association Years of		
Existence	Frequency	Percentage
1-2	19	19
3-5	17	17
6-8	26	26
9-10	38	38
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Field Survey (2018).**

Table 2 above shows that majority of respondents (81%) belong to Association which has been receiving microcredit in women organized groups for at least three years. Again 64% of the respondents belong to Associations that has been receiving microcredit in organized group for the past six years. This make it's adequate for us to measure the effects of the microfinance on the livelihoods.

### Marital Status of Respondents

Table 3 illustrates that married women make up 70 % of respondents in the treatment group where as 57.60 % of respondents in the control group are married. Single women in the control and treatment groups accounted for 9.78 % and 9% respectively.

**Table 3: Marital Status of Respondents**

Marital Status	Frequency	Clients		Non Clients	
		Frequency	Percentages	Frequency	Percentages
Married	70	70	70	53	57.61
Divorced/Separated	12	12	12	18	19.57
Single	7	7	7	12	13.04
Widow	11	11	11	9	9.78
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>92</b>	<b>100</b>

**Source: Field Survey (2018).**

The high percentage of married women in the treatment group can be attributed to the need to supplement income as a means of providing for their households.

## Educational Levels of Respondents

**Table 4: Educational Status of Respondents**

Education	Clients		Non Clients	
	Frequency	Percentage	Frequency	Percentage
None	55	55	70	76.09
Primary School	18	18	9	9.78
Junior High School	17	17	10	10.87
Senior High School	5	5	3	3.26
Tertiary	5	5	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>92</b>	<b>100</b>

**Source: Field Survey (2018).**

The educational status of a respondent whether informal or formal plays a significant role in the success of their various business ventures. Currently, Ghana's educational system is as follows: primary school is equivalent to 6 years; junior high school is 3 years, while senior high school is 3 years. In this context, tertiary education denotes post-secondary qualifications obtained from training colleges, polytechnics or universities, just to mention a few. Level of education for this particular study included a six category nominal variable. Table 3 sheds more light on the findings.

Results from the survey show that 10.87 % of non-borrowers have gone up to the junior high school level of education as opposed to 17 % of clients. Furthermore, none of non-borrowers have post-secondary education as compared to 5% of clients.

The implication of the deficiency of education on business women is poor record keeping and/or the misapplication of profits on trivial things. This is evident from the percentage of non-borrowers – 76.09 % and clients – 55% who are illiterate.

## Occupation of Respondents

Results from the survey indicate that the majority of respondents in the two groups are entrepreneurs. In this context, employees denote people who are in some form of paid work, but also have a small business to supplement their income. Employees

accounted for 3.26% of non-borrowers as compared to 1% of clients. The high number of entrepreneurs in Tamale Metropolis can be attributed to the high levels of unemployment. This then leaves women with no choice but to look for alternative sources of income rather than look for employment.

**Table 5: Occupation of Respondents**

Occupation	Clients		Non Clients	
	Frequency	Percentage	Frequency	Percentage
Entrepreneur	97	97	87	94.57
Employee	1	1	3	3.26
Retire	2	2	2	2.17
<b>Total</b>	<b>100</b>	<b>100</b>	<b>92</b>	<b>100</b>

Source: Field Survey (2018).

### **Purpose of the Loan**

The purpose of the loan is one of the variables of our first objective in Chapter one. The purpose of the loan was categorized into working capital, start-up capital and any other use apart from these two. Working capital under this context means the amount of money which is used for its day-to-day trading operations. On the other hand, Start-up capital also known as seed money refers to the money that is required to start a new business. The result shows that about 49% of the treatment group (BMC) used the amount as working capital and the remaining 51% actually used the amount borrowed to start a trade. Repayment at BMC are done on weekly bases after one week of rest, so borrowers don't have the laxity to use the funds for any other than to finance their businesses in order to payback loan on time.



**Table 6: The Purpose of Loan of Respondents**

Loan purpose	Frequency	Percentage
Working Capital	49	49
Start-up Capital	51	51
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Field Survey (2018).**

### **Monthly Net Profit of Respondents**

The monthly net profit of respondents in this paper employed a five-category ordinal variable. Profits were put into categories as respondents did not have necessary book keeping skills to give exact figures of monthly profits, thus the researcher opted to solicit possible amounts posted as profits on a monthly basis.

Empirical results indicate that 48.91 % of non-clients and 73% of clients have their net profits fall within the GHC1-400 bracket. However, it was noted that participants in the treatment group did not post profits above the GHC1600 and above the threshold. This could be attributed to either poor sales or the repayment obligations that respondents had to their respective MFIs. About 32.61 % of non-clients did not have any records of profit partly because they were not working.

**Table 7: Net Monthly Profit of Treatment and Control Group**

Monthly Net Profit	Clients		Non Client	
	Frequency	%	Frequency	%
GHC 1 – 400	73	73	45	48.91
GHC 401- 800	26	26	17	18.48
GHC 801- 1200	1	1	0	0
GHC 1600 and above	0	0	0	0
None	0	0	30	32.61
<b>Total</b>	<b>100</b>	<b>100</b>	<b>92</b>	<b>100</b>

**Source: Field Survey (2018).**

(A net monthly profit is used to proxy income. Actual values were not used for net monthly profits and expenditure, thus hypotheses 1 and 2 are shown to be not a priori).

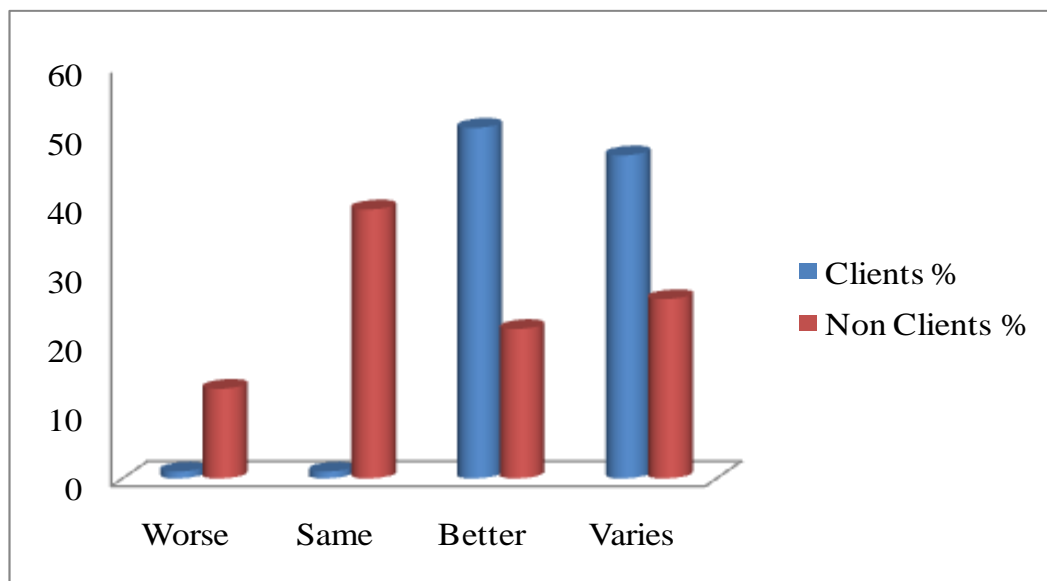
Furthermore, a cross tabular analysis was run to find the link between sales and net profits of clients and non-clients. Results revealed that 51 of the 92 sampled participants in the control group posted monthly sales between GHC1-1000 with profits not exceeding GHC400, in comparison to 96 of the 100 sampled participants in the treatment group that posted monthly sales ranging from GHC1-1000 with profits not exceeding GHC400.

#### **Trend in Profit Levels of Respondents**

Overall, profit performances over the past three months was reported to be better for treatment client and remained the same for majority of the control group. Specifically, 39.13 % of non-clients reported that their profits levels were still the same. However, 51 % of BMC clients within the same period recorded an increase in their profit

margins. These clients explain that they have to necessary sell in other to repay the weekly loan repayment mainly because of the social pressure of joint liability in loan default.

Results also revealed that 29% of participants in the control group reported profits either remaining the same or getting better over a period of three months. Participants that engaged in hawking posted profits that varied over a period of three.



**Figure 1: Trend in Profit of Treatment and Control Group for the Past Three Months**

**Source: Field Survey (2018)**

### Monthly Household Expenditure

Expenditure denotes the amount of money used on utilities such as water and electricity and food consumed.

Findings suggest that clients of MFIs tend to spend less as compared to non-clients. Respondents in the control group did not exceed the GHC601 - 800 brackets, as compared to respondents in the treatment group that had 3 % spending among GHC601-800 consumption bracket.

**Table 8: Household Monthly Expenditure for Treatment and Control Group**

Household Expenditure per Month	Clients		Non Clients	
	Frequency	%	Frequency	%
GHC 1- 200	59	59	62	67.39
GHC 201 – 400	38	38	26	28.26
GHC 401 - 600	3	3	4	4.35
GHC 601 - 800	0	0	0	0
Total	100	100	92	100

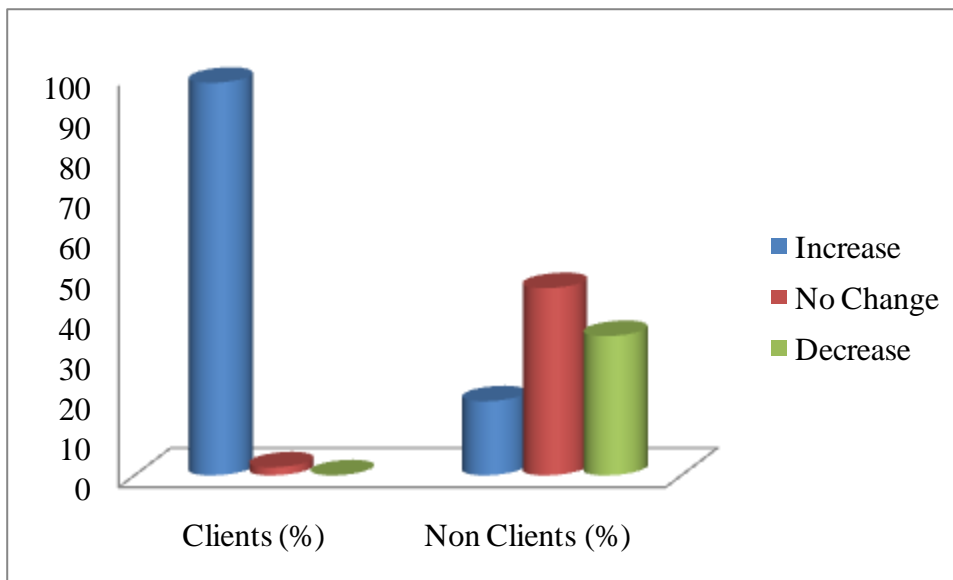
**Source: Field Survey (2018).**

### Household Diet of Respondents

The underlying assumption of finding out the diet of respondents over a period of three months was to ascertain whether microfinance to some extent had an influence on the eating habits of clients and non-clients.

In this instance a three category nominal variable was used and respondents were asked if they had noticed any changes in their diet for the past three months. Respondents were asked whether their diets and that of their household had decreased, increased or not changed at all. 98% of BMC clients confirm that their diet had improved for the past three months whilst only 18.48 % of non-clients confirmed that their diet had improved.

There was no recorded case of a decrease in diet among the treatment group. This lends credence to the fact that clients of BMC are food secured.



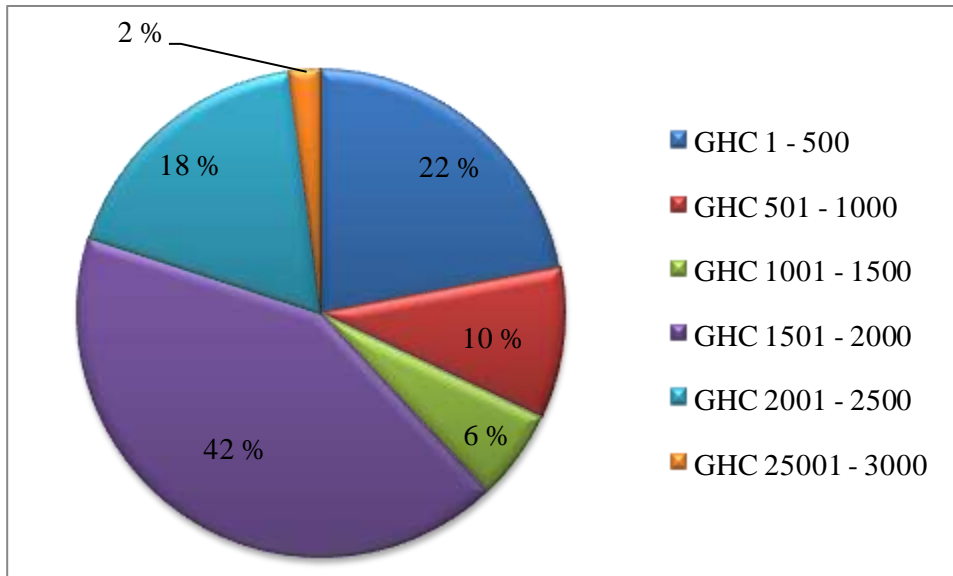
**Figure 2: Trends in Household Diet over the Past Three Month**

**Source: Field Survey (2018).**

#### **Average Amount of Money Received from Microfinance Institution**

The maximum amount that can be given to a new loan client is GHC 500. This is however subject to an individual's credit worthiness, line of business and levels of income. However, on few occasions clients prefer to even borrow loans lower than the maximum amount set. Clients in the second cycle are eligible up to a loan amount of one thousand Ghana cedis only (GHC 1000).

Results from the survey revealed that 22 % of respondents obtained loans between GHC1 – 500, while 10 % and 6 % of respondents obtained loans between GHC501-1000 and GHC1001 – 1500. However, it is important to note that the majority of BMC clients (42 %) are currently receiving loans between GHC 1501- 2000. These clients have been with the company for at least three (3) years because client's loans were increased base on once ability to pay their current loan amount successfully. The highest amount of three thousand Ghana cedis is currently in the hands of only 2 % of the company's loan clients.

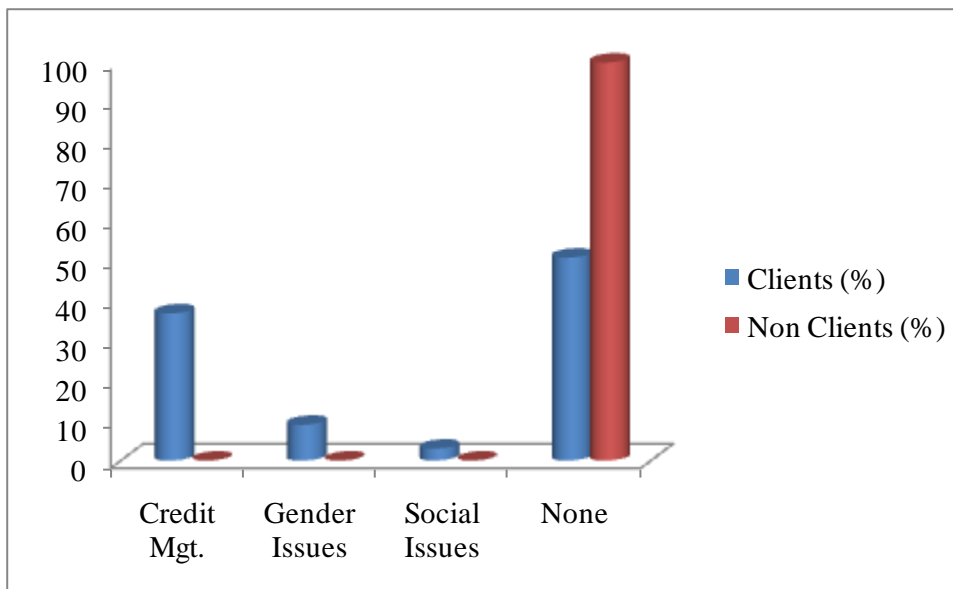


**Figure 3: The Average Loan Amount of Borrowers**

**Source: Field Survey (2018).**

### **Type of Training Received**

Forty nine percent (49 %) of the respondents received training from BMC whilst there was no training among the control group. The training covered areas such as finance and credit management, gender issues as well as social issues. Even among the treatment group 51 % said they were not given training at all. This could be explained to mean the initial Associations formed were given training but as the number of Associations increased, the Company could not continue with the training needs of beneficiaries. The figure below shows the types of training conducted within the period under review.



**Figure 4: The Type of Training Borrowers Received**

**Source: Field Survey, 2018.**

### Summary

Microfinance services make a critical contribution to fight against poverty by providing to low income entrepreneurs with the small-scale financing they need to start and grow their income-generating businesses. Governments in most developing countries are currently interested on the effects of the small and medium scale enterprises sector on job creation. Before promoting structural shifts in investment, however, policy makers and development partners should know the effects of their investment on the progress of these enterprises.

### CONCLUSIONS

Microfinance has proven to be an important tool in development process. It has managed to give an opportunity of access to finance to those who were previously denied such access and who have often been excluded from developmental programmes such as women in Ghana. Recognizing positive effects women have on household welfare, women have become major recipients of microfinance services.

### RECOMMENDATIONS

Recommendations taking into consideration the findings of the study, the following recommendations were made;

More avenue of micro credit should be made available to women groups since it has the capacity to improve their household decision making ability.

It is therefore recommended that clients of the microfinance institutions undergo training to update and upgrade their know-how, knowledge and skills on basic business ideals, so as to minimize business related hazards. An entrepreneur with a higher level of education and entrepreneurial training has a greater ability to adopt improved business skills in order to achieve increase business outcomes.

People living with disabilities do not have access to services offered by MFIs. Currently people living with disabilities and impairments are not adequately served. However, this opens an avenue for up and coming organizations to specialize in offering tailor-made Microfinance services for this niche market.

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