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Microfinance delivery methods. A critical review.

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Abstract
The study analysed and critically reviewed some microfinance delivery methodologies. The methodologies reviewed include Grameen method, Village banking method, MC² method, and Latin America Solidarity method. The study explained how each of the methods works, and their limitations. Some of the criticisms of the delivery methods include high interest rates, cumbersome processes, and sustainability of the system, among others. The study or review recommended that the micro-entrepreneurs/microenterprises should form their own micro-bank or microfinance institution, grant loans to themselves at affordable interest rate, and offer business management training, investment advice and other non-financial services to themselves. By so doing, their enterprises (microenterprises) will grow or expand, profit margins will increase, employment will expand, and individuals' incomes will increase and as a result reduce poverty especially if assisted by the government and development partners like UNDP, USAID etc.

Keywords: Microfinance, Grameen method, microenterprises, microfinance delivery methods, MC² method, Village banking method, poverty reduction.

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INTRODUCTION

Microfinance has become an increasingly popular approach that aims to alleviate poverty by providing the poor new opportunities for entrepreneurship. It also aims to promote empowerment (especially among women) while enhancing social capital in poor communities.

Microfinance which is defined by Rahman (2015) as the provision of microcredit, insurance, remittances, health, education, skill training and social awareness to the poor who are traditionally excluded by formal financial intermediaries has generally been accepted as a developmental tool (Augsburg, 2009; Ibtissem and Bouri, 2013). Despite the achievements of microfinance institutions in outreach, as at 2009 up to 80% of the population in the African continent as well as most developing nations in other parts of the world still do not have access to basic financial services (Cull et al. 2018). Meanwhile, the core business of Microfinance Institutions (MFIs) is to develop methods that can enable them to extend financial services to the hitherto un-bankable and excluded from traditional banking activities (Abdulai & Tewari, 2017). The study therefore critically examines some of the most popular microfinance delivery methodologies.

LITERATURE REVIEW

Methods of delivering Microfinance

A number of distinguishable methods of delivering microfinance have emerged in developing countries and some developed world. These methods include the Grameen method, Solidarity Group Lending method, Village banking method and many others (Ledgerwood, 1999).

Grameen Method

Professor Yunus of Bangladesh, who formed the Grameen bank in 1976, indicated that the conventional and traditional banking system is anti-poor, anti-women and anti-illiterate and hence developed the Grameen method to solve the problem (Fotabong, 2011). The method is based on voluntary formation or selection of a group of five who are not related to provide a mutual, morally binding group guarantee in place of collateral demanded by the traditional financial intermediaries (Fotabong, 2011).

Peer groups of five unrelated members are self-formed and incorporated into village "centres" of up to eight peer groups. These members attend weekly meetings where mandatory weekly savings

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contributions, group fund contributions, and insurance payments are made. The method requires a member to save for four to eight weeks before qualifying for a loan and must continue for the duration of the loan term.

The group fund is managed by the group itself and may be lent out within the group. Group members mutually guarantee each other's loans and are legally held responsible for repayment by other members. No further loans are granted to any group if all members do not repay their loans on time. No collateral is required. At the mandatory weekly meetings building of self-esteem and discipline are enforced. The local credit officer disburses loans at weekly meetings. However, only two members receive loans initially. After a period of successful repayment, two more members receive loans. The final member receives her loan after another period of successful repayment. Pre-credit orientation with minimal technical assistance is provided by the Grameen method. Group members and centre leaders perform loan appraisal. Branch staff verify information and make periodic visits to clients' businesses. Each credit officer usually carries between 200 and 300 clients.

The maturity period of the loan is from six months to one year and payments are made weekly. Loan amounts were initially from US$100 to US$300. Interest rates were initially 20% a year, and savings are compulsory (Ledgewood, 1999) but now according to Fotabong (2011), it's 7% a month. Significant examples include Grameen Bank of Bangladesh, Bangladesh Rural Advancement Committee; Tulay sa Pag-Unlad, Inc. and Project Dunggannon in the Phillippines; Sahel Action in Burkina Faso; and Vietnam Women's Union.

It needs to be mentioned that the Grameen method, although prevalent in Asia, has been replicated in other countries notably in Africa and Latin America. In Ghana, for example, Grameen Ghana, an MFI, replicates the method with modifications to suit the environment and the needs of the community. Grameen Ghana targets rural enterprises owned and managed by women in the northern sector. The main methodology used to disburse loans, according to Al-hassan, Abdul-Malik & Alhassan (2011), is credit with education using the peer or solidarity group lending approach. The maturity period of the loan ranges from 12 to 24 weeks; repayment is weekly/fortnightly; there is absence of a guarantee period, and a sponsorship of children's education.

A number of criticisms are levelled against the Grameen method. In other words, the Grameen method, although replicated in many parts of the world, especially developing countries, has a number of weaknesses. These weaknesses are in the areas of the method's repayment system, and high interest rate, amongst others.

Firstly, Grameen Bank is criticised for being too rigid regarding payments (Farrer, 2008). Fotabong (2011) asserts that the repayment system of 50 weekly equal instalments is impractical because, according to him, the poor do not have stable jobs. Again, in a typical agrarian economy, in lean seasons it will be impracticable for the beneficiaries to repay their loans. This may be the reason why agriculture is neglected in the Grameen method (Fotabong, 2011). The rigid repayment system compels some borrowers to borrow from moneylenders at high lending rates to repay their loans (Fotabong, 2011).

Secondly, there are criticisms of how well the method addresses poverty reduction. Since the method allows members to select their own group members, often the poorest members of the community are excluded. A field study in Malawi of a group-lending MFI revealed that certain women were being systematically excluded from groups: namely, women living with HIV or AIDS. Upon closer inspection, a practical reason for this overt discrimination became evident. Since the MFI was set up so that no member could leave the group during the term of the loan, most women did not want to include a woman with HIV or AIDS in the group because they believed she could die and jeopardise their existing loan and access to future loans. This highlights a general criticism of both Grameen Bank and other MFIs, namely, that these programmes do not reach the poorest of the poor (Farrer, 2008).

In the third place, it is clear from the above that the poor are being pushed into a cycle of multiple borrowings through a rolling of cash. That is, the poor or members keep on borrowing to repay previous loans, and so the cycle never ends. In addition to the exorbitant or usurious interest rate and the repayment rigidities the poor is pushed below the poverty line, thereby making the poor worse off (Farrer, 2008; Fotabong, 2011).

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Fourthly, the sustainability of the programme is questionable because the bank depends largely on external subsidies. Thus, if the donors withdraws their assistance the bank will not be self-sufficient and hence the method will not be sustainable since it has not been able to mobilise enough resources from members (Fotabong, 2011).

Village Banking Method

The Village banking method was developed first in Bolivia in the mid-1980s by the Foundation for International Community Assistance (FINCA). According to Fotabong (2011), the method was developed by John Hatch. Village banks are credit and savings associations that are formed, managed and controlled by the community with the aim of providing financial products to its members who are usually resident in rural areas (Fotabong, 2011). In addition to the above, village banks also establish community self-help groups, and assist and encourage members to save (Fotabong, 2011). Bangoura (2012) is also of the view that village banks that are community-managed cooperatives and financed by microfinance institutions (MFIs) are established by members with the objective of providing credit and savings services to its members. Membership in a village bank, which mostly consists of women, usually has a minimum of 30 and maximum of 50 people. Village banks, whose membership is based on self-selection, consist not only of members but also a management committee. Bangoura (2012) again stated that, in addition to receiving funding in the form of loan from a microfinance institution (MFI), a village bank is also funded by members' internal mobilisation of savings.

The funding Microfinance Institution (MFI) does not only grant loans or seed capital called 'external account' to the bank for on-lending to its members, but also offers training to the members (Fotabong, 2011). To qualify for a loan, a village bank requires all members to sign the loan agreement to offer a collective guarantee and collective collateral (Bangoura, 2012). The loan amount an individual member receives is dependent on the total amount of loans all members have requested at that particular moment. Bangoura (2012) further indicated that, despite the fact that the loan amount differs from country to country, first loans are usually long-term ranging from four to six months with a small amount of weekly instalment payments. Again, the savings a member has accumulated during the first loan period through weekly contributions determines the amount of the second loan.

The policy of a village bank requires that, at the time of requesting the loan, a loan applicant should have contributed a minimum of 20% of the loan amount in his/her internal account per cycle (Fotabong, 2011; Bangoura, 2012). If the loan is to be financed from the internal account (member savings, interest earnings) members determine their own terms, which are generally shorter, and their own interest rates, which are generally much higher. Loans to the village banks are generally and usually granted in a series of fixed cycles, usually 10 to 12 months each, with lump-sum payment at the end of each cycle. Subsequent loan amounts demanded by an individual is dependent upon the accumulated savings made by individual members. A high degree of democratic control and independence is practised by the village banks. At the regular weekly or monthly meetings administrative issues are attended to or addressed, savings deposits are collected, loans are disbursed and, if necessary, a microfinance officer offers training to the members.

Members' savings, which are tied to loan amounts, are used to finance new loans or collective income-generating activities. Although village banks do not pay interest on members' savings, members receive dividends from the bank's profits derived from re-lending or investment profits. The dividend earned by each member is directly proportional to the amount of savings each individual member has contributed to the bank.

Loans generally attract commercial interest rates of 1 to 3 percent and if the loan is from an internal account a higher rate is charged. Some village banks have widened their scope of service delivery to include health, nutrition and education about agricultural innovations.

In short, the village bank method, which is mostly found in Latin America and some African countries, involves an implementing agency establishing individual village banks with between 30 and 50 members and provides capital (called the "external account") for on-lending to individual members. Individual

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loans are repaid at weekly intervals over 16 weeks, at which time the village bank returns the principal with interest to the implementing agency.

To qualify for or be eligible for a second and hence subsequent loans, a bank should repay the previous loan in full. The amount or the size of the subsequent loan depends on the accumulated savings by the village members. Peer pressure is applied to ensure full repayment, thus attracting further injections of loan capital, and also encourages savings. Savings accumulated in a village bank can be loaned out to members (the "internal account"). The village banking method motivates or encourages individual banks to become autonomous institutions. The individual village banks are advised, motivated and encouraged to accumulate enough capital in their internal accounts through individual members' savings for them to graduate and become autonomous after three years.

The clients of village banks who are usually from rural or sparsely populated areas are sufficiently united. Although they have very low incomes, they have the ability and capacity to save: they are predominantly women although the programme is also for men or mixed groups. FINCA in Mexico and Costa Rica; CARE in Guatemala; Save the Children in El Salvador; Freedom from Hunger in Thailand, Burkina Faso, Bolivia, Mali, and Ghana; and Catholic Relief Service in Thailand and Benin are significant examples of this method. The original method has been adapted and replicated in a variety of ways in many countries in the developing world to suit their individual country's environment.

According to Quattara, Gonzalez-Vega, and Graham (1998), one challenge for village banks is that their policies may motivate some older members to graduate, become autonomous and hence quit the organisation when they meet the maximum loan (ceiling) set for its members. If village banks can secure the larger loans and provide the needed collateral, and are willing to adapt to the growing demands and wealth of their membership, they can transform themselves into a sustainable organisation. It is not clear if these changes are in agreement with the overall village banking technology or with efforts to minimise costs.

Secondly, the village bank method of FINCA depends greatly on external funding, and so if the source ceases, the method is at risk of collapsing (Fotabong, 2011). Again, the mandatory contribution of 20% of the loan amount by the beneficiaries put a stress on the members during the loan repayment. This is because, in effect, the loan amount reduces to 80% meanwhile interest is paid on the whole loan amount (100%); the interest rates are therefore much higher (Bangoura, 2012)

Furthermore, according to Bangoura (2012), the original village bank method loans were exclusively limited to trading and microenterprises and the maximum loan granted was $300. This presupposes that other areas like agriculture, and artisans are neglected; meanwhile most economies of developing countries are agrarian, hence the village bank method does not fully address the needs of the poor who form the bulk of the population in developing countries.

The MC² Method

Developed and promoted by Dr. Paul K. Fokam, the MC² method is a rural development micro-bank formed and managed by a community in accordance with the community's local values, traditions and customs. This approach is based on Einstein's formula: Victory over Poverty (VP) is a function of Means (M), and the Competences (C) of the Community (C). Hence the equation $VP = M * C * C = \mathbf{MC^2}$ (Fotabong, 2011).

The **MC²** is a community banking approach formed by people (mostly the poor) to create wealth, improve their living conditions and eventually become self-reliant (Fotabong, 2011). There are two versions of this approach, namely the rural version (**MC²)** and the urban version (MUFFA). The MUFFA, the second version, is for females only because, according to the founder, females residing in the urban areas are those who, due to poverty, are more vulnerable. According to Fotabong (2011), through MUFFA, women in the urban areas receive loans, which enable them to establish micro enterprises, create employment and hence wealth.

The **MC²** method rests on five main pillars: the local population, the non-governmental organisations (NGOs), Appropriate Development for Africa (ADAF), AfrilandFirst Bank Group and some national and external partners (Fotabong, 2011).

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The objectives of the method

- The first objective of the method is the achievement of financial and economic sustainability from the perspective of the micro-bank, the individuals and group members.
- The second objective has a social dimension. In addition to targeting the poor, micro and small scale enterprises, the method also seeks the restoration of the beneficiaries' dignity to recognise the importance of being master of their destiny.

The Five Stages of the Method

Stage one involves raising the awareness of the community and sensitising the poor on:

- The significance of saving in their struggle to achieve economic and financial self-sufficiency accomplished through discussions and brainstorming at community meetings, association gatherings and empowerment forums;
- The relevance of relying on oneself before expecting external assistance; and
- The importance of feeling proud of being the sole master of their own destiny.

Stage two is the resources mobilisation. This entails ensuring the commitment of stakeholders, raising the start-up capital, paying individual shares, subscription and fees, registering the micro-bank, and opening of individual accounts. The resources mobilised in stage two will help the micro-bank start the lending functions in the third stage of the micro-bank development.

Stage three deals with the provision of finance for the individuals' micro-enterprises. Here the micro-bank commences disbursing loans to individuals to operate their enterprises using the resources mobilised in stage two. The micro-bank at this stage completes the intermediary role of facilitating resources transfer from surplus units to deficits units.

Stage four is the stage where common interest economic projects are financed. At this stage the micro-bank becomes involved in the community's economic development. This includes building hospitals, schools, and community halls among others. It must be noted that the micro-bank is advised that the best time to get involved in the economic development activities is two to three years after achieving administrative and financial autonomy. That is when the bank can meet its obligations regarding salaries, electricity bills, telephone bills and expenses.

It is believed that, at this stage, any **MC²** should have the capability to raise enough money from loans and other facilities offered to pay off fixed charges and even show a surplus that can be regarded as profit. These surpluses should be built for at least two years. It is at this stage that the impact of **MC²** micro-banking approach is deeply felt. For example, imagine a community capable of generating its own financial resources to fund the construction of a small hydro project.

Stage five, the last stage, involves carrying out social development projects. At the final stage of the **MC²** micro-banking approach, the bank finances the community's social projects with the resources raised in stages three and four.

This method has been criticised on the following grounds:

To begin with, Fotabong (2011) believes that, based on the stages outlined above, it will take not less than four years for the method to achieve financial sustainability, and another four to five years to mobilise and accumulate resources. The presumption is that it will take about ten to fifteen years for the method to achieve its social dimension objective.

Secondly, the method pays 2.5% interest on savings. This relatively low rate of interest on savings might be a disincentive to resource mobilisation. This means that the method might not be able to mobilise and hence accumulate the needed resources to achieve its twin objectives of financial sustainability and the social dimension.

In the third place, the method does not specify the amount of savings each member should make a month. To finance a project like hydropower, construct hospitals etc. requires a huge sum of money. The implication is that the method or the bank should have a lot of money; meanwhile members of this bank are supposed to be poor. This is a serious contradiction and hence a weakness of the method.

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Latin America Solidarity Group Lending

The Solidarity Group Lending method is a group lending methodology that grants loans to individual members in groups of four to seven (Fotabong, 2011; Bangoura, 2012). The members do not provide physical collateral when they apply for a loan, instead members cross-guarantee each other's loan. Clients who receive micro-loans for short-term capital are commonly female market vendors. This method was developed by ACCION International in Latin America and has been adapted by MFIs in many parts of the world, especially the developing world.

Clients of this method who are traders or merchants and who usually operate informal micro-businesses/enterprises need some amount of working capital to grow their businesses. As stated earlier group members co-guarantee loan repayment, and access to subsequent or repeat loans is dependent on successful repayment by all group members (Fotabong, 2011). The method requires members to make weekly repayment at the programme office (Bangoura, 2012). The method, in addition to providing loans to members, also incorporates minimal technical assistance to borrowers, such as organisational capacity building and training. Credit officers who do not normally get to know their clients very well carry a load of between 200 and 400 clients (Fotabong, 2011).

After minimal economic analysis of each loan request, credit officers approve a loan, after which loan disbursement is made to the group leader at the branch office who immediately distributes the loan to each individual member. Credit officers occasionally and briefly visit the individual clients (Bangoura, 2012). Normally, group members receive equal loan amounts, with some flexibility provided for subsequent loans. That is, when a client demonstrates the ability to handle a bigger amount of debt she/he is granted a bigger loan amount and flexible loan terms. From the above, it can be said that the Latin America Solidarity Group lending method has a simple loan application process that are reviewed quickly. Although savings are usually required, it is not a condition for accessing a loan rather they are often deducted from the loan amount at the time of disbursement. They are used to guarantee a portion of the loan amount, serving primarily as a compensating balance.

According to Bangoura (2012), subsequent and repeat loans have no upper limit or ceiling, however the amount of the first loan generally varies between US$100 and US$200. The method, which offers very few voluntary products, charges service fees and high interest rates. Savings are usually required as a portion of the loan; some institutions encourage establishing intra-group emergency funds to serve as a safety net (Bangoura, 2012).

From the method of delivery, Latin American Solidarity method is not without criticisms.

First, the high interest rate charged on loans granted to microenterprises may lead to the collapse of their clients' businesses, and this will defeat the purpose of the method. If the aim of the method is to enhance the growth of microenterprises, and eventually lead to poverty reduction, then the high interest rate on loans granted to the clients should be reduced. Meanwhile, there is no mention of interest paid on clients' savings. Clients' savings must attract interest, but the method is silent in this regard.

Coupled with the above is the burden of mandatory weekly repayment. If, in a particular week or period, sales drastically fall, the client will not be able to make the payment. This leads to some enterprises borrowing from other sources to repay the loan causing a vicious cycle of multiple borrowing that will eventually lead to the collapse of the business and a spiralling cycle of default. This may lead to the collapse of the method.

Another weakness of the method is the fact that there is no upper limit or ceiling on the amount of any subsequent loan to clients. This, if not properly and carefully managed, can cause huge sustainability challenges, especially when clients continuously default. In situations where there are no credit bureaux, there will be multiple borrowing to repay loans, and this cycle will continue which may collapse the system or method.

The following are significant examples of the method: ACCION affiliates: PRODEM, BancoSol Bolivia; Associati'on Grupos Solidarios de Colombia; Genesis and PROSEM in Guatemala; Bank Rakyat Indonesia (BRI); and the Association for Social Progress in Bangladesh (Bangoura, 2012).

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MATERIALS AND METHODS

The study was purely a critical review of some group delivery methodologies of microfinance. The methods reviewed namely Grameen method, Latin America Solidarity Group Lending method, Village banking method, and MC² method are among the most popular methods of delivering microfinance. The study discussed, analysed the methods, pointed out and discussed the limitations of each methods, and drew conclusion. Neither questionnaires were administered, nor interviews conducted.

CONCLUSION

Notwithstanding the shortcomings of the methods, if an environment that encourages frequent meetings, training and interaction among borrowers is created, the group lending methodology facilitates the development of relational trust and expansion of the size of micro-entrepreneurs' networks (Ojong & Simba, 2018). This, according to Ojong and Simba (2018), will be a better strategy to assist the poor entrepreneurs and move them out of poverty. In addition to the above, it is recommended that the micro-entrepreneurs should form their own micro-bank or microfinance institution, grant loans to themselves at affordable interest rate, and offer business management training to themselves. By so doing, their enterprises (microenterprises) will grow or expand, create more employment, and as a result reduce poverty especially if assisted by the government and development partners like UNDP, USAID etc. It is suggested that future research should be conducted to find out the best microfinance delivery methodology for developing countries in general and Ghana in particular.

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