Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.5, No.14, 2015

Achieving Long-Term Poverty Reduction and Institutional Sustainability in Microfinance through the Dynamic User-Focussed Approach

Eric H. Yeboah[1], Alhaji Abdulai[2] and Esmeranda Manful[3]

1. Department of Sociology and Social Work, Faculty of Social Sciences, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana
2. Department of Liberal and General Studies, School of Applied Sciences and Arts, Cape Coast Polytechnic, P. O. Box AD 50,Cape Coast, Ghana
3. Department of Sociology and Social Work, Faculty of Social Sciences, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana

Abstract

Microfinance institutions that are primarily poverty reduction (PR) oriented must be confused about the prioritisation of institutional sustainability (IS) recent times. While theoretical arguments show a trade-off between PR and IS, empirical evidence indicates the contrary. This paper examines an MFI in Ghana which describes itself as explicitly poverty-oriented to ascertain how the PR objective is affected when they prioritise IS. Findings from the qualitative study reveal that when the MFI emphasised sustainability, it had significant negative implication for PR. The dynamic user-focussed approach is proposed as a solution to the conundrum poverty oriented MFIs encounter when they prioritise sustainability.

Keywords: Institutional sustainability, microfinance, poverty reduction

1. Introduction

Microfinance institutions that are explicitly poverty-reduction-oriented must be confused about the need to prioritise the institutional sustainability. In recent times the microfinance industry seems to overemphasise institutional sustainability. Funding agencies are collectively pushing for MFIs to be financially self-sufficient often at the expense of poverty reduction (Quayes 2012). These MFIs dedicated to reducing poverty must be worried about a possible trade-off between these important objectives. The danger with trying to achieve both objectives at the same time is that MFIs that are poverty-oriented are likely to experience mission drift which in the case of poverty-oriented MFIs, means over-preoccupation with profitability at the expense of their poverty-reduction goal (Zeller & Meyer 2002; Copestake 2007; Kasenge 2011). How important are the two objectives in microfinance?

2. Primacy of the Poverty Reduction Objective

Why is microfinance important to developing countries? Microfinance has gained global acclaim as an important poverty reduction tool in many developing countries (Johnson & Rogaly 1997; Gibbons & Meehan 2002; Armendariz de Aghion & Morduch 2005; Bakhtiari 2006). According to Morduch (2000), few recent innovations have held much hope for reducing poverty in developing countries as microfinance. Indeed, microfinance is perceived as a crucial driving mechanism towards achieving the millennium development target of halving extreme poverty and hunger by 2015 (Simanowitz 2002; UNCDF 2005). It has been argued that microfinance institutions were established in developing countries with the objective of reducing poverty rather than for profit-making (Harper 1998; McKernan 2002; Muhumuza 2007). According to leading advocates, microfinance has the capacity to efficiently and effectively provide sustainable financial services to poor households who are otherwise excluded from the conventional financial systems for lack of collateral. ‘Microfinance is not simply banking, it is a development tool’ (Ledgerwood 1999: 1).

2.1 Arguments for Institutional Sustainability

The idea of striving for financial sustainability is that it is institutions which do not depend on external support or subsidies that can grow and achieve wide outreach and have the maximum impact on service users (Robinson 2003). Terminologies such as dual objectives of microfinance and in addition catchphrases such as ‘financial inclusion’ and a ‘win-win situation’ have been coined to legitimise the prominence now being accorded to financial sustainability. Why has institutional sustainability become so important?

Three main arguments can be proffered for the increasing prioritisation of the institutional sustainability objective. First argument is related to the historical antecedents of microfinance. Inspired by the idea that widespread shortage of credit constituted a major constraint to development of agriculture which happened to be the backbone of most developing countries (Yaron 1992), donors and governments of developing countries created formal agricultural credit systems also known as Agricultural Development Banks (ADBs).The ADBs, which were state-sponsored financial institutions, were tasked with the responsibility of offering subsidised microcredit to small-scale farmers.

ADBs mostly adopted supply-driven strategies that neglected savings-mobilisation and other financial services in favour of external funding and emphasised top-down controls. These banks also had weak and dysfunctional governance structures and internal control mechanisms which were unable to prevent political intrusion and were unable to discipline delinquent borrowers (Gonzalez-Vega & Graham 1995). Most ADBs failed universally and their disaster stories are well-documented (Morduch 2000; Gonzalez-Vega & Graham 1995; Robinson 1995). Institutional sustainability advocates argue that MFIs should avoid the problems that bedevilled ADBs by eschewing permanent reliance on subsidies and political interference.

The second argument for ensuring the sustainability of microfinance institutions stems from what Bateman and Chang (2009) call the intimate relationship between microfinance and neo liberalism. Burkett (2007) says the idea of self-sustainable microfinance is in consonance with neoliberal and neoconservative economic agenda which emphasise market-oriented solutions to development: microfinance like all other institutions need to earn their keep on the market.

The third arguable reason is the quest for profit. The idea that microfinance is profitable seems to have attracted the financial capitalist world. For example, BancoCompartamos, an MFI in Mexico spectacularly raised an amount of $467 million from 30% share of the company through an Initial public offer (IPO). Again, in 2010 the largest MFI in India, SKS Microfinance, launched an IPO to raise funds for its activities. It was heavily oversubscribed (13 times oversubscribed) and in the process SKS was able to raise an amount of $155 million (Chen *et al.* 2010; Singh 2013). These success stories certainly caught the attention of investors who have campaigned for the commercialisation of MFIs.

The arguments in favour of financial sustainability are well-intentioned and have an intuitively favourable appeal: making microfinance institutions efficient and financially sustainable will enable more poor people to gain access to microfinance and result in greater numbers of people becoming less poor. It is argued that microfinance institutions which experience growth will enjoy economies of scales and result in lower costs to service users.

2.2 Problem Statement

The problem regarding institutional sustainability is that it has become the overarching objective of the microfinance industry. In developing countries where microfinance is perceived and used as a development tool, institutional sustainability or what CGAP (2004) calls solid financial performance, is a means of achieving poverty reduction rather than being an end in itself. Thus, institutional sustainability is seen as a necessary but not sufficient condition for poverty reduction.

While various theoretical arguments have been advanced on how a trade-off exists between poverty reduction and institutional sustainability (Copestake 2007; Navajas et al. 2000; Schreiner 2002), empirical evidence indicates that no trade-off exists between the two objectives and that they can even be complementary (Lin *et al.* 2014; Bassem 2012; Quayes 2012; Louis *et al.* 2013). However, the extant literature also indicates that achieving poverty reduction and institutional sustainability at the same time has been notoriously difficult for most MFIs (Armendiariz de Aghion & Morduch, 2005).

Most of the literature on the relationship between the two objectives has employed meta-analysis and macro-level studies (Hartarska & Nadolnyak 2007; Quayes 2012; Louis *et al.* 2013). On the micro-level, very little is known regarding how users are affected when poverty-oriented MFIs prioritise institutional sustainability.

This paper examines the activities of a pro-poor MFI in a rural community regarding how emphasis on institutional sustainability affects the lives of users of microfinance services. A rural community was targeted because it is in these places where poverty is more prevalent and MFIs' activities are tested to their limits. As well, if this paper determines that poverty reduction is affected, it will offer an alternative approach that will ensure that MFI are sustainable and achieve long-term poverty reduction.

3. Methodology

This qualitative study examined data collected in Nsoatre on the implementation process of the microfinance programme of the Sinapi Aba Trust (SAT), a non-governmental MFI with an explicitly poverty-oriented objective. SAT was established in 1994 under the laws of Ghana as a company limited by guarantee to support the economically active poor through microfinance and basic business training (SAT 2007). SAT integrates training programmes into the provision of microfinance services. Non-financial services provided include entrepreneurial skills development, credit management, and records-keeping. SAT was selected because initial enquiries suggested that even though they profess that poverty reduction was their ultimate objective, institutional sustainability measures seem more prominent.

SAT has been operating in the rural community for over 14 years. It served only people who were already engaged in non-farm income-generating activity. It employed lending method which is a slightly modified version of the Grameen's joint liability model. At the time of the fieldwork which took place between August 2007 and January 2008, SAT in Nsoatre had 8 groups with membership ranging from 8 to 20 members.

The area of study Nsoatre was selected because of the researchers' intimate knowledge of the linguistic, social, cultural, economic and political characteristics of the area. Hershfield et al. (1983) argue that with regard to rural fieldwork, interviewers' knowledgeable about behavioural patterns, social organisation, and economic issues of village life are important. Nsoatre is a rural community which is predominantly agricultural. Nsoatre is characterised by poor markets with considerable economic fluctuations due to seasonal agricultural and rainfall patterns.

Data used in this paper was collected from this microfinance institution as part of a bigger project between September 2007 and January 2008. Semi-structured face-to-face interviews were used to collect data on the SAT programme from 15 service users and 2 microfinance staff. The interviews focussed on the implementation process of the SAT programme. The researchers sampled for diversity, which aimed at collecting as varied information as possible. Officers who were directly in charge of supervising and interacting with service users were interviewed. Aside the interviews, the staff were consulted when there were any issues that required clarification. Secondary data obtained for the study included documents, reports and brochures from SAT.

The data was translated and transcribed at the same time. Much effort was paid to ensure that the transcripts reflected what the interviewees intended to convey. After this process the researchers listened to the interviews and compared them to the transcripts to ascertain that any mistakes and omissions that had occurred were rectified.

3.1Analysis of Data

The analysis of the qualitative data was guided by three stages of Connolly's (2003) qualitative data analysis. The three stages employed in the study were: the generative phase; interpretive phase; and the theorising phase. At the generative stage the qualitative data was coded into themes and sub-themes based on the sub-questions under the main research questions. At this stage the information that was insignificant or irrelevant was discarded. The researchers were however alert to any new themes that emerged and did not fall under any of the sub-research questions. It was at the interpretive stage that the data was reduced. The patterns between the themes and the sub-themes were determined and brought together.

3.2Ethical Consideration

This study was assessed to be high risk with regard to the potential harm it could cause respondents because service users could be victimised if they gave negative information about SAT. Every effort was expended to ensure the anonymity and confidentiality of service users. Pseudonyms were therefore used throughout the study.

4. SAT's Activities and Implications for Poverty Reduction

The paper examined the SAT programme looking out for the various components that emphasises institutional sustainability and assessed their poverty-reduction implications.

4.1Involvement of Service Users in Programmes

SAT as a development intervention, needs to involve all stakeholders, especially beneficiaries, in all stages of the process (Oakley *et al*. 1991; Pretty 1995; Chambers 1997; McLeod *et al*.2007). Involving service users increases the likelihood that programmes will be context–specific and meet the requirements of the service users thereby making them more relevant to poverty reduction. However, MFIs prioritising institutional sustainability are not likely to engage their users in the design and implementation of the programmes because it is time-consuming and costly, which is likely to erode profits. For such MFIs, their services are equated to orthodox banking, which usually does not involve clients in the design and implementation of their services.

The study examines the introduction of the programme to the area of study to ascertain whether the inputs of service users were sought and incorporated in the design and implementation of the programmes. Service users did not recall any questions or interviews concerning what they preferred in the programme. When asked whether service users were represented in the design and implementation of the programme, a staff of SAT replied ‘No, when we have designed it and we explained it to them and they accept it we give them the loans’.

This is what a service user had to say regarding whether they were involved in the formulation and implementation of the programmes:

> No, they (SAT) did not ask our views about how the programme should be done. All they did was to inform us that anyone who wanted to join to write down their names with Teacher Boakye. We did not know anything about how they operated. They told us we will get loans for our business (Yaa Tawiah).

In sum, SAT’s programme was introduced into the community already designed and was implemented with no inputs whatsoever from users. Pitamber (2003) has observed that MFIs are noted for their exclusion of users from the design and implementation of their programmes. As to why they did not involve the people in the development of the programme, a SAT manager stated that their programmes had to be structured to conform to the financial management software programme instead of the other way round.

What were the implications of the non-involvement of service users in microfinance programmes? The operations of the SAT programme suggest that there was some mismatch between the activities of the programme and economic opportunities in the area of study. For instance, loan disbursement and repayment patterns did not reflect seasonal economic fluctuations and market conditions of the area of study and therefore service users were unable to take optimum advantage of economic opportunities. The negatives effects of the non-involvement of service users seem to resonate in all other components of SAT’s programme. Karlan & Mullainathan (2000) have documented how mismatch between loan repayment and incomes can result in grave consequences for the ability of microfinance service users to alleviate their level of poverty. The non-involvement of users ultimately detracts from the effectiveness of microfinance programmes as a poverty reduction tool.

4.1Group Formation

The paper also examined group formation within the SAT programme and its implications for poverty reduction. Asked about how they formed their Trust Banks, SAT service users stated that anyone who was interested and met the selection criteria of the programme wrote down their names on a list which became a group once the required group size was attained. In spite of widespread importance of self-formation of groups (Ghatak 1999, 2000; Armendariz de Aghion & Morduch 2005), SAT’s interviewees’ argument for the disregard for the self-selection of members was to ensure that each Trust Bank consisted of members of different occupations and socio-economic status. SAT staff further explained that the idea was to prevent covariate risk and ensure that the less poor assisted the poorer ones during periods of repayment difficulties. The idea received confirmation in a study in Bolivia where Mosley (1996) found that there was much higher likelihood that group members assisted their peers when the socio-economic profile of the group was more heterogeneous. It was obvious that the non-self-formation of groups was to achieve the financial sustainability objective of the microfinance scheme.

In forming groups without the use of peer selection, SAT service users claimed they had very little knowledge of each other and were therefore unable to assess each other’s level of risk. In order to ensure the survival of the groups and therefore continued access to loans, members said they had to purge their groups of service users who struggled with loan repayments. In other words, while strict adherence to rules of expelling recalcitrant members enabled groups in SAT to get rid of people who could afford repayments but wilfully refused to repay loans, it was also likely to result in the expulsion of poorer members who faced nascent repayment problems. Interviews confirmed that there were high expulsion rates among SAT groups, especially in the initial stages of group formation. For instance, members in one of the first groups of SAT were reduced from 75 to 30 in its first year of commencement. Some studies (Montgomery 1996; Marr 2002; Johnson & Copestake, 2002) have confirmed that poorer service users were more likely to be expelled from microfinance programmes compared to the non-poor. Yunus' (1998) application of Gresham's law (here Yunus refers to the tendency for one class in a group to "crowd out" another's ability to gain from an intervention) to groups in microfinance programmes supports this argument: if the poor and the non-poor are put in one group or program the non-poor will always drive out the poor. This implies that if there are any expulsions from the groups in the two programmes it is the poor who are likely to be affected.

Thus, the evidence of this study indicates that how groups were formed in microfinance programmes has significant implications for poverty reduction through the exclusion of poorer service users. Findings demonstrated that ignoring the self-selection of groups as found in SAT resulted in the expulsion of the poor from the groups.

4.2Loan Disbursal and Repayment

The SAT programme employed very rigid loan disbursement and repayment regime. The SAT staff interviewed explained that this was to inculcate in users the habit of making regular repayments which ultimately should boost loan recovery rates. In addition, the regimented disbursal and repayment was structured to conform to the financial management software programme called eMerge which is an integrated software used for accounting, portfolio tracking, HR and payroll, and fixed assets management. This method of loan disbursal and repayment showed very little regard for rural environment. The regimented disbursal and repayment patterns did nothing to assuage the pressure service users experienced in an environment where considerable economic fluctuations were the norm. They sometimes received loans during the lean season when economic activity was practically at a halt. Service users also had to make equal loans payments irrespective of their cash flows. Most service users claimed they faced extreme repayment difficulties and this was probably due to the combinationof the problems enumerated above. These factors were the most often cited reasons for expulsions and dropouts from the programme.

Additionally, the SAT programme employed the dynamic incentive strategy in their loan disbursement. This meant that service users received bigger loans after they had successfully completed the previous cycle. Loan increment after each cycle is usually used as a repayment incentive and to ensure repayment rates remained high. However, the repayment duration remained unchanged in spite of the increase of loans. In an environment where service users admitted markets were poor and therefore businesses rarely expanded, this put great pressure on them during loan repayment.

4.3Client Welfare Scheme

SAT operated an insurance product known as the Client Welfare Scheme. It covered the risk of death or debilitating illness while the service user was servicing a loan facility. The product was developed to remove the burden of repaying the loan of a member of a group who is deceased or severely ill. For instance, HIV/AIDS patients who were too ill to engage in productive activity and unable to service a loan qualified under the client welfare scheme. For client welfare scheme contributions, SAT levied 2% on any amount borrowed by a member which is then added to the interest charged. It is important to note that the service users stated that they were not consulted regarding the introduction of this scheme. While the scheme protected the programme by ensuring loan defaults rates were kept low resulting in the sustainability of the SAT programme, it offered no such protection for the service users. In effect, SAT programme protected itself but left the service users to their fate if they encountered problems. The programme could have as well instituted schemes to protect the users when they go into financial difficulties. Thus, it was clear that SAT was more interested in their sustainability than the welfare of users. Is this what an explicitly poverty-oriented MFI should do to make its users less poor? Making the poor resilient to crisis is one sure way of reducing poverty. According to Hulme and Mosley (1997), one important way of reducing poverty is strengthening their ability to overcome crises so that they can invest in profitable but risky ventures.

4.4Interest Rates

Karnani (2009: 10) has observed that MFIs routinely conceal the effective interest rates by 'creative practices such as charging 'flat' interest rates, upfront fees and charges, security deposits and compulsory savings'. High effective interest rates detract from the profitability of businesses of users of microfinance services. SAT charged a flat interest rate of 35% which translates to over 90% APR. In addition, there were a myriad of charges and deduction that significantly increased the effective interest rate on loans: loan application fee; processing fee; training fee; insurance; and compulsory savings. Staff stated that a loan application fee (GH¢1) and training fee (GH¢0.5) were required at the commencement of each cycle. Staff of SAT again indicated that an amount of 2% was added to the interest rates as insurance. A processing fee of 3% was also deducted from loans. In addition to deductions and charges mentioned above, staff of SAT said that from every loan granted, SAT made a 10% compulsory deduction as loan guarantee. Total deductions amounted to about 20% of loans given and yet interest was calculated on the entire loan amount. Many of the SAT members protested that too much money was being deducted from their loans and severely reduced the amount available to them.

From the forgoing, it is clear that pursuing institutional sustainability can have negative ramifications on poverty reduction. The picture of SAT striving to achieve financial sustainability at the expense of poverty reduction clearly emerges from these findings.

5.The Dynamic User-Focused Approach: A Counter Intuitive Alternative

For microfinance institutions desirous of using microfinance as a tool for poverty reduction, how can the apparent negative effects of pursuing an institutional sustainability objective as discussed above be resolved? While Kasenge (2011) has argued that there is evidence that pursuing poverty reduction contributes to portfolio quality which in turn can strengthen MFIs, there is no comprehensive strategy/approach regarding how this is to be pursued, especially when MFIs are confronted by two conflicting objectives. This article proposes an alternative strategy—dynamic user-focused approach—for microfinance institutions in developing countries which are determined to achieve both sustainability and poverty reduction but with poverty reduction being their ultimate objective. The dynamic user-focussed approach entails two activities. First, constructing a hierarchy of objectives and second, ensuring that MFIs involve users in programme design and implementation including tracking users' progress and tailoring programmes to suit their conditions.

The dynamic user-focussed approach is based on the idea that service users are likely to repay loans if they have been made better off. This has been observed in this and other microfinance programmes. From the interviews, it was evident that service users whose businesses flourished were highly likely to pay their loans and even assist their peers to honour their repayments. In fact, even though the service users incessantly complained of loan repayment pressure they kept up with loan repayments. In case of service users who had defaulted it was usually due to inability to repay rather than wilful refusal to repay. In other words, there was a very low probability of ex-post moral hazard (a situation where service users are able to repay loans but wilfully refuse to repay) among service users. This observation is very important because it meant that if microfinance programmes enabled service users to improve their businesses and/or household finances then the MFI stands to experience good repayment rates.

5.1Building a Hierarchy of Objectives

The dynamic user-focussed approach begins with the ranking of microfinance objectives in a hierarchical order rather than putting them on the same pedestal of importance. This will enable MFIs to clearly emphasise their ultimate objective and concentrate on achieving it. So for microfinance institutions with poverty reduction as their ultimate objective, poverty reduction is put at the apex of the hierarchy. This strategy also applies to MFIs seeking to achieve multiple objectives. For example, if institutional sustainability or depth or breadth of outreach is the next most important objective then it goes into the pyramid till all the objectives are taken care of. A hierarchical order of objective forces MFIs to acknowledge which objectives matter to them the most and serves as a guide during programme design and implementation. For example, in fixing interest rates on loans, MFIs should determine how they will affect poverty reduction (if it is the most important objective). If, for example, the interest rate enable the MFI to become sustainable at the expense of reducing poverty then the rates should be revisited. Another important reason for ranking objectives is that it mitigates the problem of considering objectives as of equal importance and the consequent problem of trade-offs.

5.2Involvement and Tracking of Users

The second part of the dynamic user-focussed approach demands the involvement of the users in the design and implementation of microfinance programmes. This strategy is important if the microfinance programmes are to be relevant to the needs of the users and make them more relevant to poverty reduction efforts. Chambers (2000) asks, whose reality counts? Often it is those who are supposed to benefit from programmes whose perspective matters the most. However, while values, priorities and criteria of service-providing institutions and users differ, it is the realities of those who are poor, such as users of microfinance services, whose view points are often ignored and misunderstood. This therefore results in mismatch between programmes and users circumstances as observed in the SAT programme. In microfinance programmes, users could be involved in the design of components of the programmes such as loan disbursal and repayment, insurance schemes and determining interest rates and other charges. Enabling the self-formation of groups is also another form of involvement. The paper concedes that the involvement of users in programmes is a challenging task; however, it is a very necessary strategy of ensuring that microfinance programmes are relevant to circumstances of users.

Finally, MFIs then have to periodically monitor service users' progress and tailor their programmes to fit their changing circumstances. Additionally, periodic monitoring is also to identify what users require to enable them improve their livelihoods. This might entail, for example, the addition of non-financial service to the microfinance programme if that is what is required to make users less poor. This strategy implies that, for example, the dynamic incentive strategy will no longer be automatic: loan sizes will change according to the circumstances of users. The advantage of tailoring programmes to suit changing conditions of users and deliberately ensuring that MFI services make people less poor should enable programmes to be relevant to the needs of the users and positively impact on their livelihoods.

Tracking users and tailoring financial services to the need of the poor is not a new strategy. However, while some MFIs [Association for Social Advancement (ASA), Financier Calpis in El Salvador, Centenary Rural Development Bank of Uganda (CERUDEB)] have used market-research to identify and structure programmes to suit users, this strategy is usually for profitability rather than for the benefit of users. This paper argues that the strength of the dynamic user-focussed approach is the synergistic effect of the building of hierarchy of objectives, involving and tracking users that would enable users to reduce their levels of poverty.

The main arguments of the paper are graphically presented in Figures 1 and 2. Figure 1 depicts the scenario of poverty-oriented MFIs which primarily focuses on institutional sustainability. It is based on the findings of SAT's microfinance programme. From Figure 1, when microfinance programmes are geared predominantly towards institutional sustainability, the impact on poverty reduction is small which is likely to negatively affect the sustainability of the MFI. This is shown by the relative sizes of the institutional sustainability and poverty impact boxes. The reduced impact on poverty in turn adversely affects the sustainability of MFIs. This is the problem that this paper tries to ameliorate.

Figure 2 is an alternative strategy for achieving long-term poverty reduction and institutional sustainability. Based on the dynamic user-focussed approach, when poverty-oriented MFIs choose to concentrate on reducing poverty, they are likely to make users better-off which in turn would make microfinance institutions sustainable. As seen in Figure 2, the MFIs which concentrate on poverty reduction are likely to observe a positive effect on sustainability. The relative large sizes of the poverty reduction and sustainable MFIs boxes indicate that focus on poverty reduction has a positive effect on sustainability of MFIs.

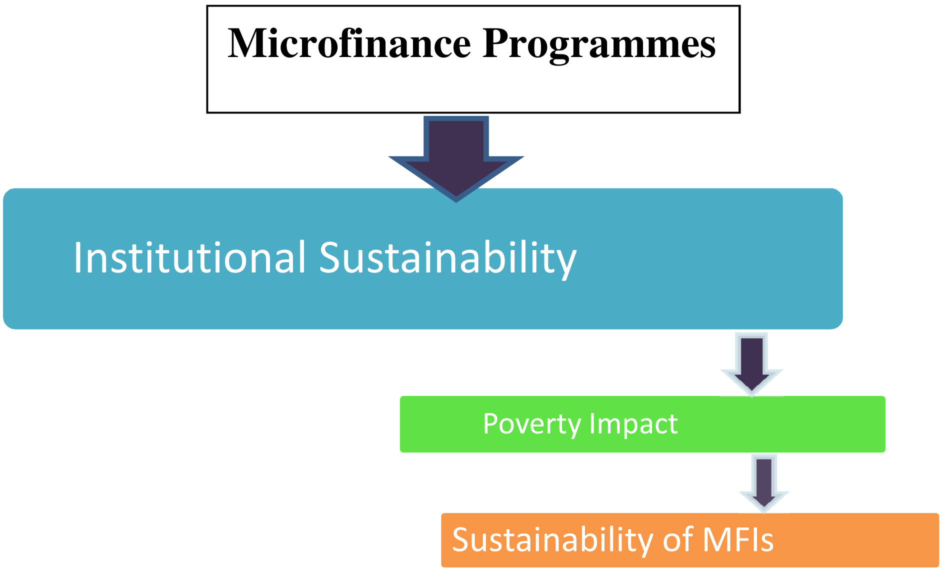

Figure 1: Reduced Poverty Reduction Impact under the Institutional Sustainability Regime

Source: authors' construction

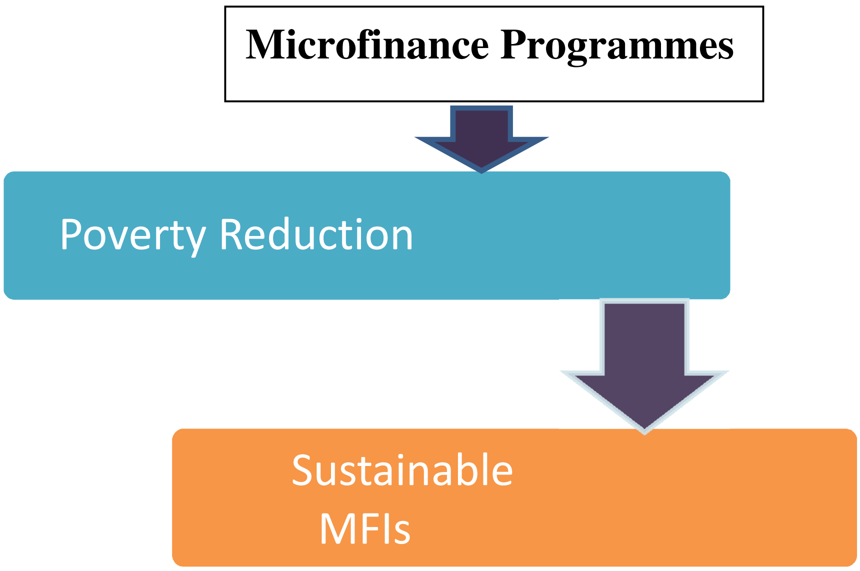

Figure 2: Strategy for Achieving Long-term Poverty Reduction and Institutional Sustainability

Source: authors' construction

6. Conclusion

How do poverty-oriented MFIs fare when they prioritise the sustainability of their institutions? While literature on the trade-off between poverty reduction and institutional sustainability from meta- and macro-level analysis indicate positive and complementary outcomes when MFIs endeavour to achieve both objectives, very little comprehensive information exists at the programme or micro-level. In contributing to knowledge in this field, this paper assessed the poverty outcomes of an explicitly poverty-driven MFI pursuing institutional sustainability in a rural community in Ghana. While this micro-level paper does not have conclusive evidence on the issue of trade-off between the two objectives, findings of this paper indicate that there were significant adverse poverty outcomes when MFIs prioritise sustainability. This paper proposes an alternative strategy to achieving both poverty reduction and institutional sustainability: the dynamic user-focussed approach. This approach entails three strategies: constructing a hierarchy of objectives, involving and tracking users with the view of making them less poor. The import of this approach is that if MFIs concentrate on reducing poverty, they are likely to experience improved and sustained repayment rates, and also offer larger and more profitable loans. This should enable microfinance institutions experience long-term sustainability. It is important to note that concentrating on poverty reduction should not preclude MFIs acting in a business-like manner, following sound financial practice, being efficient and exhibiting financial discipline.

MFIs that set out to reduce poverty using the dynamic user-focussed approach can also be sustainable. The dynamic user-focussed approach constitutes innovative strategy for contributing to the solution of the problem. This article has important policy implications for the microfinance industry. The application of the ideas espoused in this article to the microfinance industry should result in the reorientation of microfinance programmes as sustainable development tools.

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Eric Henry Yeboah: I completed an MA in Sociology with specialisation in Program and Policy Evaluation at the University of Western Ontario in Canada. My PhD was in International Development with a thesis on Rural Microfinance in Ghana at the University of Birmingham in the UK. I am a member of the International Development Evaluation Association (IDEAS). I am currently a lecturer at the Department of Sociology and Social Work, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana. My areas of research interests include rural development, microfinance, family business and project and policy evaluation.

Alhaji Abdulai: I am currently a lecturer at Cape Coast Polytechnic, Cape Coast, Ghana. I completed MBA (General Management) at the University of Wolverhampton in the United Kingdom. I am very committed to the development of enterprise knowledge and skills among student groups. Most of my teaching and research activity is in the field of family business, microfinance, strategy and entrepreneurial learning and knowledge transfer as well as rural entrepreneurship.

Esmeranda Manful: Dr. Esmeranda Manful joined the Department of Sociology and Social Work as a lecturer in October 2012. Prior to that I was an applied social policy researcher with the Centre for Research in Social Policy, Loughborough University, UK; Northern Ireland National Assembly and the then Ghana National Commission on Children. I am a product of the University of Ghana (1992 and 2002) and Queens University, Belfast (2009). My research interests are in child welfare policies and programmes; poverty issues, comparative social policy and child protection systems.