

MICRO FINANCE PRODUCT DEVELOPMENT IN GHANA:

The Case of Kraban Support Foundation's Micro-Loan Products.

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Abstract

In Ghana today, the growing competition in the financial services sector has necessitated the need for innovative products with emphasis on sale of funds in order to succeed in the dynamic operating financial environment. Micro-finance institutions (MFIs), especially the financial non-governmental organizations (FNGOs), are playing pivotal roles in micro-finance service delivery in Ghana. Through innovative product development, these microfinance institutions render very useful financial services to the rural, peri-urban, urban, and the informal sectors of the Ghanaian economy to meet ever increasing demand for these innovative micro-finance services.

The need for innovation is largely attributed to the fact that FNGOs are not legally authorised to collect deposits from clients or the larger public to improve their deposit and liquidity base. They are therefore compelled to design unique and innovative loan products that will sell in order to keep them in business. They therefore adopt innovative approaches and develop tailor-made loan products to meet the increasing economic activities and to address poverty in Ghana. Moreover, the increased need for micro-finance services which calls for these innovative approaches in loan product development to meet the increasing demands for micro-loans in Ghana cannot be over-emphasized.

Furthermore, such micro and small business lending operations cannot realistically and

successfully be undertaken by conventional banks without a known methodology. Micro and small business lending is a specialized activity with known and specialized methodologies which do exist for micro-enterprise finance, but may not be suitable for larger commercial banks operations.

Several other innovative approaches have been undertaken by these FNGOs to reach their clientele in Ghana. These include flexible lending mechanisms based on the "group solidarity concept," the "mutualist guarantee schemes" and the "inventory credit" systems. Some specific loan products of these MFIs are:

- (1) The *Credit with Education* pioneered by Freedom from Hunger Ghana;
- (2) The micro-lending and spiritual transformation programme of Sinapi Aba Trust,
- (3) The food inventory credit initiated by Technoserve International and
- (4) The Training, Education and Credit for Health (*TEACH*) lending strategy of Kraban Support Foundation.

A number of FNGOs have designed specific loan products for micro enterprises lending in Ghana. One such organisation is the Kraban Support Foundation. The purpose of this paper therefore is to examine the various innovative micro-loan products designed by this FNGO

and to analyse how the sale of these products have enabled the FNGO to carve a niche in the microfinance market in Ghana.

OBJECTIVES

The objectives of the paper are as follows:

1. Reveal the creative, innovative, and unique dimensions of loan product development by Kraban Support Foundation.
2. Bring to the fore the variety of micro-loan products developed by Kraban Support Foundation.
3. Determine the effectiveness of loan products developed by Kraban Support Foundation.
4. Analyze the extent to which loan products have impacted positively or otherwise on clients of Kraban Support Foundation.
5. Evaluate the role of research and development as key to the sustenance of FNGOs in Ghana

Research Methodology

The main research instrument used was personal interviews based on a structured questionnaire. The questions were however classified into two categories. A set of questions were for the literate respondents who were largely the staff of the various institutions contacted. The second set of focus guided questions was administered to the clients of some selected institutions of the population. These were mostly illiterate clients.

The study identified and examined the varied and peculiar characteristics which were considered when the FNGO developed its micro-loan products. The study further analyzed the specific characteristics of micro-finance clients whom such products are developed for. Typical characteristics of such clients are that they are self-employed, low-income entrepreneurs in both rural and urban areas, lack traditional collateral, business records, systems or established credit history

and can be in groups or are individuals. The paper would also identify the gaps in existing products of the FNGO. It would critically review how new needs in key profitable markets currently not being satisfied informed Kraban's decision to become innovative in product development.

The study further analyzed the changing tastes and habits of clients, which could quickly determine the pattern of demand for a micro-loan product. Also the study examined the microfinance market place of FNGOs in Ghana where it is relatively easy for others to enter and inevitable prospects for many organizations to compete and render the market lively and active.

The paper would critically review the various creative techniques that were used to help Kraban Support Foundation to produce new concepts and micro-loan products. These best ideas came through a combination of data analysis and creativity using the following useful and creative techniques: brainstorming, attribute listing, modification of each attribute in the search for an improved product, need/problem identification and idea screening approaches. Other micro-loan product development techniques examined included technological development, past failures, ideas borrowed from elsewhere and forecasting the future environment.

Finally, the study reviewed some documents of the FNGO including the Kraban's capability statement, 2004 product costing, and 2006 Annual Report. Other documents from the other organisations within the population including audited financial statements and annual reports were analysed. Furthermore, various loan products from other financial intermediation programmes, including formal commercial banks and non-bank financial intermediaries, were examined.

Population

In all seven (7) institutions were selected for the study. The institutions the researcher dealt with within the population were Kraban

Support Foundation; Ecumenical Church Loan Fund Ghana; ProCredit; and Manya Krobo Rural Bank. The others were Taifa Presby Church Credit Union, Care Women's Association; and the Ghana Cooperative Susu Collectors Association. The study analysed the eleven loan products of Kraban Support Foundation vis-à-vis the products of the other organisations within the population. The products of Kraban Support Foundation are *PCIP, BEAM, SANKOFA, ORACLE, READY, TEACH 1, TEACH II, TEACH III, SIKA ROSE, AGAPE & EXTRA MILE.*

The researcher collected secondary information about the loan products through the various units and departments of the organisations. To validate the secondary data, the researcher conducted a rapid participatory survey with some selected clients and collected primary data and other information needed from clients who participated in the various programmes.

In total six institutions in addition to Kraban Support Foundation formed the population of the study. They included two financial non-governmental organizations, one savings and loans company, one rural bank, one credit union, one cooperative society and a susu organisation was contacted. Their systems of product development and credit delivery were studied in comparison with that of Kraban Support Foundation.

Research Questions

1. What skills do the FNGO have in developing micro-loan products?
2. Do the FNGO undertake research and development before developing their micro-loans?
3. Are the micro-loans developed by FNGOs reaching the target clientele?
4. Do the FNGO have other products from the micro-loan products?

Problem Statement

Financial Non-Governmental Organizations do

not have marketable micro-loan products designed to meet the specific needs of their clients.

Findings

The study brought to the fore that the main microfinance model being championed by the FNGO, Kraban Support Foundation is known as the *TEACH* lending model. This micro-finance service delivery tool was designed and is operated by Kraban Support Foundation, a financial Non-governmental Organisation (FNGO).

Other organizations the study covered also have loan products including that of funeral loans, church loans, fishermen loans, salaried loans and consumer loans among others. However Kraban Support Foundation's loan products stand out unique. The study identified the following as the conditions that permitted the FNGO to come out with such innovative products:

Conditions

The study found out that the FNGO develops its micro-finance products based on the following 3 key principles:

1. The identification of gaps in existing financial product range,
2. Identification of new needs in key profitable markets currently not being satisfied or
3. A decision to become innovative

These principles were important, especially the third, to the FNGO because it was identified that the organization's clients, just like many others, had changing tastes and habits, which quickly changed their pattern of demand for a loan product. Since the FNGO was operating within a market place where it is relatively easy for others to enter, it is inevitable that Kraban Support Foundation would be in competition with many other organizations. This also made the micro-finance market in Ghana lively and active.

Kraban Support Foundation therefore adopts various creative techniques in its micro-finance product development. In producing new concepts and products, the FNGO either adapts existing product through a combination of data analysis and creativity or develops completely new products.

Steps

The following are the useful but necessary steps the FNGO adopts in developing its micro-finance products:

- Brainstorming
- Attribute listing techniques
- Need/Problem Identification
- Idea Screening
- Technological Development
- Past Failures
- Borrowed ideas
- Futurology

Having identified why and when new products should be developed, the FNGO's staff is then assisted to know and understand the whole process of product development. The research and development unit stated that a new product is then developed through the following stages:

- Identification of market/sector
- The Market
- Needs Analysis
- Product Testing
- Advertising Testing
- Launch
- Product Management

Identification of market/sector: This requires an extensive research work to find out what sector of the economy will be viable to invest in, be it agriculture, mining, services, etc. The choice of a sector is influenced by the aim and objective of the clientele as well as the branch location of the FNGO.

The Market: A deep understanding of the market is important for effective product development. Kraban Support Foundation makes the effort to understand and know the size of the total market and its growth pattern - who makes up the market in socio-economic

terms, what are the uses for the product, who is the decision maker, when is the product most likely to be used, how are they currently served, and where do they live.

Need Analysis: After aiming at and obtaining the data on the sector and market, it is then necessary for staff of Kraban Support Foundation to fully understand the needs of the target clientele in a thorough manner. This stage helps the FNGO to distinguish possible segments and provide useful insights into the type of micro-finance products that should be developed.

Product Testing: Having gained valuable insight into the needs of the segment and having identified areas where the micro-finance products could be developed, prototype products are then developed. The FNGO develops these to such a stage that the clientele upon whom it is tested feels that it is a real proposition. The organization starts the loan product through pilot test on some few clients within specific communities of a particular district in a region. Specific examples of the FNGO micro-finance products are indicated below.

Advertising Testing: If the product testing stage showed many problems, the FNGO then goes back to the drawing board and revises its product development strategy. However, if some positive indications cropped up, then the next stage is to develop the advertisements together with the micro-finance product test again, this time with a representative clientele drawn from the target district. This is the fine-tuning stage for the micro-finance product launch

Launch: With the final product and advertising fully tested, the FNGO then develops plans to launch it. By necessity of the newness, the launch involves a lot of fanfare and publicity about the product through community information dissemination, church advocacy, policy dialogues, brochures, flyers, and other point of sale materials.

Challenges

The following are the 3 key challenges that serve as constraints to micro-finance products development of Kraban Support Foundation as a financial non-governmental organization:

- Established computer systems, i.e. technological advancement limit the range of products to be developed.
- Legal issues prevent some lines of thought emerging as micro-finance products.
- Lead times on product development are usually long. Consequently, micro-finance product development must be brought into the strategic business plans of the FNGO.

Micro-Finance Products

PCIP: The Public Catering Improvement Project was implemented at Daboase in 1997 in the Mpohor Wassa East District in collaboration with the National Service Secretariat District Office and the Lower Pra Rural Bank. Our NGO facilitated the child growth-monitoring component with support from UNICEF. The Project cost was €10 million and reached 400 micro enterprises.

BEAM: The Basic Hygiene Education and Micronutrients Promotion project was piloted in the Yilo Krobo District with the District Health Management Team (DHMT) in 1999. The target beneficiaries were lactating mothers and children. Our organisation facilitated the use of protein substitutes to supplement the dieting of weaning mothers.

The sessions also included Immunisation, wean mix preparation, the use of iodized salts and Vitamin A supplements for children. Save the Children UK funded the project. Project cost was €14.5 million and assisted 575 women in various income generating activities.

ORACLE: The Organic Agriculture and Credit Lending Education project was undertaken in 2000. The partners of this project are the Centre for Biodiversity Utilisation and Development (CBUD) at the Kwame Nkrumah University of

Science and Technology and the Ghana Organic Agriculture Network (GOAN). Our NGO animated farmer groups in the Fanteakwa District. The project promoted the use of improved Leafy vegetables, *prekese* and snail farming methods alongside other improved indigenous farming techniques. Project cost was €12 million for a revolving loan scheme for 1,310 smallholder farmers.

READY- Involves the identification and provision of requisite rural entrepreneurial skills for the youth in Ghana. This is a linkage programme with 30 selected rural junior secondary schools with each school providing 20 school leavers towards this programme annually. They are provided training in bee-keeping, fish-farming, vegetable cultivation, carpentry, masonry, hairdressing and dressmaking. The Rural Entrepreneurship and Agricultural Development for the youth (READY) links products of this training programme to rural financial institutions for credit to enable them establish their own enterprises.

SANKOFA - Sankofa means "go back to basics". This savings mobilization programme is based on the traditional savings concept in Ghana called "SUSU". Members of such Susu Schemes contribute a fixed amount of money to a common fund at regular intervals for a specific period. The amount is then rotated amongst contributors on monthly basis. With the Sankofa Strategy, the amount is used to purchase a tangible assets which serves as an additional skills to generate income for themselves and their children. About 500 disabled persons had benefited from this programme 450 of the beneficiaries are women.

TEACH 1: The Training Education and Credit for Health project is an entrepreneurship skills development and sanitation improvement project. It was undertaken in Christian Village and Kisseman communities in the Okaikoi-North sub-metro of the Accra Metropolitan Assembly. The project seeks to improve the incomes and health status of women traders especially cooked food sellers. The German

Development Service (DED) is supporting the project. The project cost is €18 million. It is a Small credit scheme for women traders and mostly chop bar operators numbering 851.

TEACH II: An HIV/AIDS behavioural change and awareness promotion programme in the Yilo Krobo District of Ghana. The District is noted for a high infection rate of about 5% in the country. The overall infection rate in the country is 3%. Our modules include: Overcoming Stigmatization & Discrimination, Communication for Behaviour Change, Voluntary Counseling and Testing, Reproductive Health Programmes Reducing Mother-to-Child Transmission, Care and Support for PLWHAs, Opportunistic infections and Future Directions: Vaccines/Microbicides. The project is being financed by the Ghana AIDS Commission under the Ghana AIDS Response Fund (GAR FUND) and the Yilo Krobo District Assembly. Project cost is €65 million credit for women income generating activities. The number of women reached was 1,200.

TEACH III: The objective of this programme was to provide a complementary capacity building role of stakeholders charged to formulate development programmes in some Districts in Ghana to be sensitive to the plight of the poor. This is being done through the establishment of an open and collaborative planning, implementation, monitoring and evaluation mechanism of participating communities to prepare environmentally friendly community-based projects in 6 Social Investment Fund-Assisted District Assemblies in the Eastern Region. The programme is being supported by the World Bank Small Grants. Project cost is €146.2 million. The credit programme has reached 2,050 small enterprises.

SIKA ROSE: This on-going micro-finance programme started in November 2004 and is being financed with a Revolving Loan Fund from the Social Investment Fund (S.I.F). The fund is managed by the ARB Apex Bank. The programme has an outreach of 2,098 small scale enterprises. These clients are located in

10 Communities within the Ga East, Ga West and Dangbe West Districts of the Greater Accra Region. Our MFI has received a cumulative amount of €1,728 million from the Fund Management Unit of S.I.F. The programme achieved a 100% repayment in 2005 and 2006 with an interest repayment of over € 80 million. Currently, in 2007 fiscal year, the financial NGO is managing S.I.F revolving loan facility of € 887 million.

The Rural Financial Services Project (RFSP) of the Ministry of Finance and Economic Planning (MoFEP) has assisted in building the capacity of the groups in financial management, micro-finance operations and governance. The training was handled by Freedom From Hunger Ghana, a Training Provider under the RFSP.

AGAPE: The Agape loans are humanitarian loans given to externally displaced persons operating income-generating activities to support their families within the informal economy of Ghana. Some beneficiaries of these loans include Liberia Women Refugees operating micro, small, and medium enterprises at the refugee camp in Gomoa Buduburam. Other clients are migrant Togolese women operating income-generating activities at Kisseman, Christian Village, and Katapo, near Pokuase in the Greater Accra Region. The programme which started in May 2005 is supported by the International Alliance of Women (TIAW) a micro-enterprise development organisation based in Ontario Canada. TIAW has provided an initial seed capital of (\$10,000) about 92 million Cedis for 55 migrant micro women entrepreneurs to promote their alternative livelihood activities.

EXTRA MILE: The Extra Mile loan product is a micro-credit scheme where individuals worldwide make loans to individual clientele of Kraban via the internet on a website which KIVA Microfunds, an on-line lending facilitator manages. KIVA Microfunds is based in San Francisco, California in the United States of America. The scheme which started in November 2006 has reached out to 600 clients of Kraban with a credit facility of € 3.5 billion as at June 2007.

Conclusion

Having identified why, when and how new products are developed by Kraban Support Foundation, the author would like to conclude and to help readers to understand the whole process of micro-finance product development. Micro-finance product development must be done innovatively by all actors within the industry, especially financial non-governmental organisations. This would ensure their sustenance in the fledgling but competitive micro-finance industry in Ghana. New micro-finance products could be developed by adopting the following steps: identification of market/sector, the market, need analysis, product testing, advertising testing, launching and product management. These are successful tried and tested key steps necessary for achieving an excellent market niche in micro-finance.

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Nana Opere-Djan is the founder/CEO of Kraban Support Foundation, a leading Financial NGO in Ghana. He possesses a Master of Arts degree in Adult Education from the University of Ghana; a Postgraduate Diploma in Public Administration from GIMPA and a Bachelor of Arts (Political Science with Sociology) from the University of Ghana. He is also an alumnus of two renowned capacity building institutions in the world namely: AICAD located at Jomo Kenyatta University of Agriculture and Technology, Kenya and the Management for Development Foundation in Ede-Waginegen, The Netherlands. He has also benefitted from a Micro-finance Training with the Boulder Institute of Micro-finance held at the International Training Centre of the ILO, Turin, Italy.

Nana Opere-Djan has over 15 years experience in participatory training, research and evaluation in addition to acquiring considerable knowledge and practice in development planning and project management. He has acquired competencies to design and evaluate socioeconomic projects including informal financial intermediation programmes. He also has experience in gender project identification, consultancy, product research and development. He has assisted the development of business and marketing plans for micro, small and medium enterprises to access funding from commercial sources locally and internationally.

Nana Opere - Djan has both public and private sector work experience. He has worked with several organisations including National Development Planning Commission, Ministry of Manpower Youth and Employment, Lower Pra Rural Bank Limited and Women's World Banking Ghana Limited among others.

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