

# Contours Of Microcredit Mannequin: Socio-Economic Differentials Of Debtors And Non-Debtors In Sierra Leone.

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**Abstract:** The controversies of microfinance are to a large extent fueled by its unclear definition and limited understanding of the extent of its impact. The problem of taxonomy leads to contrast between idealistic beliefs in the sectorial mission and pragmatic solutions of MFIs causing misinterpretations of the realities by financial laity as well as by development experts. Lack of comprehension of the potential as well as an ideal socio-economic habitat and target profile of microdebtors in the light of problems of over indebtedness, belongs to such problems. An in-depth comprehension of the profile of a desirable microfinance client denominated as microcredit mannequin from the development perspective, and a grasp of a combination of drivers that make microentrepreneurs in developing countries often contracting microdebt, might serve as a tool for more efficient focus of microfinance in developing countries. An understanding of the meaning of microfinance and the characteristics of a desirable client could help focus on particular socio-economic strata, prevention of overindebtedness and improve the impact of debt, especially in rural areas where microfinance is most needed and where it lacks most expertise. The study was founded upon field data collected in regions in Sierra Leone from 800 microfinance debtors as well as non-microfinance practitioners and compares their socio-economic profiles in order to arrive to a set of generalised conclusions on the particular drivers that define microfinance clientele.

**Index Terms:** Sierra Leone, microfinance, credit mannequin, labour force, empowerment, socio-economic indicators.

## 1 INTRODUCTION

While it is widely accepted that the availability of microcredit, apart from increasing income, raises access to alternative credit sources through creation of credit history and delivers empowerment of women [8]. Field opines that, the availability of microcredit helps the formation of group structures which leads to higher local cohesion, creating social capital and providing other benefits [7]. Contrary to these benefits, many unanswered questions related to microfinance continue to stay a cause for its non-cessant critique. In consequence, generalisation of ill-developments of individual initiatives, albeit local in its causes and impacts, often undeservingly tarnish the sector as a whole. It becomes increasingly clear that microfinance is being practiced in an environment lacking central authority and thus wasting potentials of coordinated effort and that few MFIs have managed to formulate their theory of change explaining how the activities they are involved in could lead to their expected outcomes [13]. Empirical evidence seems to point at the fact that microfinance does not manage to reach extremely poor [14]. In a situation when not all borrowers are microentrepreneurs and most do not use microcredit even when available [2]. When microcredit is often used as consumer credit to smooth cash flows [2], it is important to ask which groups of the poorer population are to be targeted in order to increase the beneficial impact and decrease risks of microcredit. The common definition of a typical microfinance client is that of a low-income, self-employed, frequently household-based female entrepreneur without access to formal financial services. This definition however does not go into depth of the socio-economic pattern of the individuals, while its ambiguity reflects general lack of consensus on what microfinance is and what microfinance ought to be. The nebulous delimitation of the sector can be well illustrated on the fact that according to a general consensus there are at present no microfinancial products and delivery mechanisms which can serve extremely poor [9], while fight against poverty in general belongs to key mottos of the sector. Few MFIs are indeed capable of articulation of who their clientele is, what are their non-financial goals and how are these to be achieved [3]. Unlike corporate financiers, most

MFIs do not perform a proper business analysis and in case of village banks rely on the groupal wisdom instead, leading to the decision to include or to reject peer debtors. Target attributes of MFIs credit policies that exclude prospects from the planned credit disbursement operations are usually based upon criteria of sex, negative record in credit buro, no proximity of blood to other group members and sketchy appraisal of the trustworthiness done by credit officer. As commented by [13], microfinance remains despite being one of the most celebrated innovations in international development, „a realm of heartwarming, unproven stories combined with vague ideas on why it works and its importance“. Recent setbacks in Bosnia, Morocco and Andrapradesh as well as suspicions of Grameen's corporate headaches or excesses of IPO of Compartamos raised more concrete questions on the nature of microfinance which continue to remain answered. Besides, the ambivalent nature of microcredit which besides benefits can also provide harm, puts into question all the related justification of microfinance as a development tool, leading to a formulation of the following question: who is to be targeted by MFIs and what distinguishes the ideal microfinance client from an undeserved one? As mentioned Dupas and Robinson as well as Field et al., it may be more important to decipher out how to identify what kind of borrower or client will be and should be, and to tailor services accordingly [7], rather than a priori provide saturation coverage of the target population counting with a percentage of "debt casualties". This research paper takes the first step in response to above mentioned question by trying to distill concrete differences between the active microfinance clientele and the non-clientele from similar socio-economic habitat by comparing two large group samples. Definition of the profile of the microcredit mannequin in its role of the desired client is important as it could provide more clear definition of the socio-economic target group and in future relate concrete sectors, human typologies as well as family related issues to important topics such as over indebtedness or impact of microcredit and thus to understand where and how microfinance is to be employed and where it is to be avoided.

## 2 RESEARCH METHODS AND MATERIALS

### 2.1 Research background

The research covered Niawa Chiefdom in Kenema and Bari Chiefdom in Pujehun district in the Eastern and Southern Province of Sierra Leone respectively. Niawa Chiefdom lies in a distance of 200 kilometers from the capital city, Freetown, is made up of twenty-six towns and villages constituting a total population of 1,500 inhabitants and makes part of the Kenema rural district with high incidence of poverty. Bari Chiefdom, lying in a distance of 170 kilometers from the capital city is serviced by Advocacy Movement Network (AMNet), a Non-Governmental Organization with one a Microfinance branch. The Bari chiefdom is made up of twenty one towns and villages with a total population of 1,300 inhabitants. It is part of the Pujehun Rural District with a high rate of poverty as well, with very similar socio-economic conditions of Niawa. Both of these chiefdoms are within the same geographical proximity and are separated by less than 50 kilometers. The materials used for this article are derived from primary field data, using a structured questionnaire of nineteen questions for both clients and non-clients. Except for questions relating to their sources of income and alternative sources of income, all the other questions remain the same for the two groups. A sample of four hundred (400) respondents were targeted from each group, thus making the total targeted respondents to eight (800) hundred. Four main indicators, Human resource; Income and financial accessibility; Food security and vulnerability; Sanitation/Dwelling, were included in the questionnaire aimed at extracting information for onward data processing. Each indicator had a number of variables as determinants and the questions were structured based on these groupings like: Human Resource (sex, number of children per family, number of school going children per family, Educational level of family head and Family head marital status); Food Availability (Meals per day, Meals served with fruits and vegetables per day, availability of food per family per day); Dwelling, Household Assets ownership and related indicators (Family house size, sanitation situation, type of WC, ownership of appliances, frequency of energy per household per week); Microfinance Institutions' Interventions/Non interventions (Interest rate, Income source of family members, Monthly wages of family members, Monthly expenditures of family members, alternative sources of income of family members, Clients and Non-Clients' reactions to Microfinance interventions). In the microfinance chiefdom of Bari, the targeted respondents were mainly family heads who take the loans on behalf of their different families. Thus, in a group lending of five people for instance, all five clients automatically qualified to respond to individual questionnaires. In an event where two or three family heads lived in the same house, then three individual questionnaires are responded to, thus, in both study areas, the target was the family head. The difference in the manner of executing the questionnaire was that the clients had to answer and return the questionnaires to the researcher within a week's period but in the non-microfinance area, the researcher goes from house to house asking the questions and filling out the appropriate responses. In this way, a Participatory Learning and Action (PLA) method was employed. Personal interviews with stakeholders in the microfinance industry in Sierra Leone, extracts from microfinance literature by practitioners in Sierra Leone and beyond, internet sources are all part of the materials and methods used in gathering data for

this article. A triangulation method, focused on the traditional scientific approach, the Humanities tradition and the Participatory Learning Action (PLA), are all employed to a greater extent in compiling the data. A summary of the respondents' views, total number of responses and author's remarks for all four indicators are provided below in a tabular form.

### 2.2 Research questions

The research is focused on the determining the difference between microfinance and non-microfinance clients, in specific socio-economic categories and attempts to answers the following questions:

- What individual socio-economic categories of clientele show highest differences between paired means of quantified answers?
- Is there any particular pattern of groups of characteristics that can be attributed to those peasants that need external financing in form of microcredit?
- Can the differences in the two data samples in dependence on the statistical method used reveal alternative view of the differences between the two groups?

Making use of the results, what is the ideal profile of a microfinance client and what adjectives can therefore be defined the microcredit mannequin as the confectional type of microcredit client?

## 3 RESEARCH METHOD

The decision on the selection of tests employed was made in accordance with the nature of data collected in both questionnaires, which are two independent variables of Likert Scale types, with expected Normal distribution. The Independent Samples Two-sided t-test, Mann-Whitney-Wilcoxon test, Kruskal Wallis tests were selected to compare the questionnaire data in order to compare two sets of data and help answer the following proposed hypothesis.

**H<sub>1</sub>:** Alternative income sources will reveal the most important difference between clients and non-clients.

**H<sub>2</sub>:** Group of answers related to financial matters (income, wages, expenditures, alternative income sources) will reveal the major difference between microfinance clients and non-clients than other groups of questions.

**H<sub>3</sub>:** The difference between microfinance clientele and non-clientele will in general show clear and distinguished values, especially in terms of financial matters. All statistical methods employed will therefore provide similar results.

Hypothesis (1) will show other financial means of respondents in the study. With this, it would be clear in analysing the impact of these alternate means of financial assistance of the respondents. This will prove to some extent, how income sources affects the livelihood of individuals and give a clearer view of the income status of the respondents. This will also tell whether microfinance clients have better access to alternate incomes than their counter parts or vice versa. Hypothesis (2) will describe the living standards of the various respondents. It is expected that, microfinance clients are to be better off than non-microfinance clients if they receive financial assistance. The expenditure level, income level as well as source of

alternative income will show how secured a household is and to some extent the level of poverty and food security amongst individual household. Knowledge on this will prove the major differences amongst the respondents. Hypothesis (3) will give a general overview of the financial status of individual households in the sampled community. From this, we can deduce the differences between the respondents and how the financial status affects either respondent in financial terms.

#### 4 OBTAINED RESULTS

Employing the level of significance of 95%, the differences between the two respondent samples of clients and non-clients had shown dramatic differences as in all the answers to the questions the differences between the clients and non-clients had been statistically important. In case of number of children going to school (#SchChldn), family head marriage status (FHMarSta) and size of family house (Fam HouSize) as well as monthly expenditures (FMMonthlyExp.), the p-values were slightly smaller than the p-values of the compared other questions which means that these socio-economic indicators might be to a certain extent more important for the status of a microfinance client than the rest of the indicators. The table nr. 1 below depicts the analysis of the respondents from the three types of test tools employed. Table 1. Statistical results showing analysis of the respondents as demonstrated in this document, the numbering for sections upper case Arabic numerals, then upper case Arabic numerals, separated by periods. Initial paragraphs after the section title are not indented. Only the initial, introductory paragraph has a drop cap. From the table (2) below, the three research hypothesis can thus not be confirmed through statistically convincing values as none exceeds p value of 0.05, applying at a level of confidence level of 95%. Alternatively, there may be an indication that the differences between the abovementioned indicators, while the rest of the indicators are to a certain extent more important, as they show different behavior. As to research questions, the research demonstrates answers in a clear way that there are deep differences in the socio-economic status of microfinance clientele and non-clientele. No statement can be done however in relation the groups of socio-economic indicators. In order to facilitate the structuration of the questions that would permit creation of profiles of the respondents, questions used in this research were arranged into four groups of questions with a similar focus and that of family related, food related, housing related and finance related question fields. Table nr. 2 in attachment shows response from the respondents based on the principal chosen categories. Looking at the analysis below in table 2, it can be observed that the non-clients 'respondents under the Human Resource indicator is hundred percent as all the questions were answered. The Food availability and vulnerability indicator registered the same positive corporation among the respondents and shows a great deal of interest among the non-clients. It is almost similar situation for the Dwelling, household asset ownership and related indicators except that seven (7) people stayed away from responding to the question regarding the supply of energy. It is just about 1.7% of the total respondents and so may not have any significant impact on the result itself. Under the indicator of income and microfinance interventions, the monthly wages and expenditure questions were fully answered but there is a zero response by non-clients for interest rates and certainly for obvious reasons. Apart from that, only three people refused to

answer the question related income source. The alternative source of income question showed the least response, either because they never wanted to discuss it or otherwise. However, despite few non responses, it was an encouraging result from the non-clients on the whole. Also, a critical look at the response of the microfinance clients in table (3) below, it can be deduced that, most of the respondents answered questions regarding food security, interest rate, income sources and alternate income sources. Most of the respondents were positive on their sanitation level, responding to 208 being yes as compared to 124 for those of non-microfinance clients. However, taking into account the various categories such as financial related categories, the response from the two respondents were in different on the levels of food security and also income sources. However, there were some differences on the level of response on alternate income sources. Most of the non-clients answered yes to having an alternate source of income, a number of 226 out of 259 interviewed as compared to 162 out of 400 interviews for the microfinance clients. Therefore, though most of the characteristics of the various respondents were similar on the level of socio-economic behavior, microfinance clients were different on alternate source of income and hence can be said that, these respondents depends solely on microcredit from microfinance institutions for their livelihood.

#### 5 CONCLUSION AND RECOMMENDATION

The examination of the differences between 400 microfinance clients and 400 non-clients in two chiefdoms in Sierra Leone had provided indications that socio-economic profiles of microfinance clientele and non-microfinance clientele of a similar socio-economic stand differ dramatically in all categories inspected, including alternative income sources, number of children, monthly expenditures, educational level and marital status of family head, food availability, energy supply, size of family house, appliance owned by family as well as sanitation type and quality. Slightly smaller, yet unconvincing values were recorded in the case of number of children, marriage status of family head and size of family houses as well as monthly expenditures, which could provide a hint on the lesser significance of these indicators on the microfinance target market characteristics. Provided both regions have similar access to microfinance, which is another type of analysis not performed by this study, the conclusion of the aforementioned results therefore signposts that those rural poor who take microcredit represent a completely different group than the non-clients. This view of microfinance would however mean that microfinance is not for most of the rural populations, as there is a strong segregating line between the target populations and non-target population. Microcredit instrument, according to this view, as some scholars point up, is thus rather an exclusive club instrument for development and not a tool for broad masses. Microfinance mannequin in regions of Western Africa, according to this paper, is therefore a micro entrepreneur who has a higher level of material security and differs substantially from his poorest peers. This leads to the recommendation to MFIs to take radical differentiating stand as to the selection of regions that are to be targeted as potential markets and which according to this study should be, from the socio-economic point of view, rather significantly materially better off. The findings confirm and perpetuate the conceptual problem of microfinance as providers to financial services to those micro entrepreneurs who have already escaped the extreme poverty and are rather looking for

a way how to improve their situation than to access a substantial step change in reaching higher level of their socio-economic standing through the help of microcredit.

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**Table 1.** Statistical results showing analysis of the respondents

Category	Group	IST P-Value (2-sided, adjusted for ties)	IST Stat.	IST Stat.	MWW P-Value (2sided, adjusted for ties)	MWW Stat.	KWT P-Value (2-sided, adjusted for ties)	KWT Stat.
#children	Family	0,0000	0,0000	1,9632	0,0000	137752,50	0,000	47,908
#SchChldn	Family	0,0001	0,0001	1,9631	0,0331	154042,00	0,00331	4,541
FHEduSta	Family	0,0000	0,0000	1,9636	0,0000	128688,00	0,0000	101,83
FHMarSta	Family	0,0001	0,0001	1,9629	0,0000	147030,00	0,0000	19,868
Mls P.Day	Food	0,0000	0,0000	1,9629	0,0000	134487,50	0,0000	68,096
Mls W. fruit	Food	0,0000	0,0000	1,9629	0,0000	181026,00	0,0000	45,424
Food Security	Food	0,0000	0,0000	1,9630	0,0000	182510,00	0,0000	50,696
Fam HouSize	Housing	0,0001	0,0001	1,9629	0,0000	147012,00	0,0000	18,608
WC Facility	Housing	0,0000	0,0000	1,9629	0,0000	134909,00	0,0000	65,019
Sanitation level	Housing	0,0000	0,0000	1,9641	0,0000	100076,00	0,0000	377,54
Appliance Owned	Housing	0,0000	0,0000	1,9629	0,0000	180848,00	0,0000	50,326
Energy SS .week	Housing	0,0000	0,0000	1,9630	0,0000	123639,50	0,0000	134,10
FM Monthly Wage	Income	0,0000	0,0000	1,9633	0,0000	138420,00	0,0000	67,585
FMMonthlyExp.	Income	0,0004	0,0004	1,9629	0,0003	148829,00	0,0003	13,076
Alter .Income Sou.	Income	0,0000	0,0000	1,9632	0,0000	189226,00	0,0000	86,940

**Table 2.** Summary of Non-client's responses (grey lines used for statistical comparison)

Parameters	#Respond	Classifications		%	Remarks
Sex ratio	400	M: 134	F: 266	34/66	Complete
#children	400	10 or - : 264	11+ : 136	66/34	Complete
#SchChldn	400	4 or - :335	5 or+ :65	84/16	Complete
FHEduSta	400	None:183	Basic:217	46/54	Complete
FHMarSta	400	Mar: 186	Unma:214	46/54	Complete
Mls P.Day	400	1 or - :216	2 or+ :184	54/46	Complete
Mls W. fruit	400	1 or - :266	2 or+ :134	66/34	Complete
FoodSecurity	400	Yes : 198	No : 202	49/51	Complete
FamHouSize	400	1-8Rs:145	9Rs+ :255	36/64	Complete
WC Facility	400	Pit :169	None: 231	42/58	Complete
Sanitation level	400	Good: 124	Bad : 276	31/69	Complete
ApplianceOwned	400	yes : 6	No :394	2%/98%	Complete
Energy SS P.week	393	1 or - :330	2 or+ : 63	83/16/1	7NRespo
Interest rate	0	0	0	0	0
FMIncome source	397	Agri:355	Wage: 45	88/11	3NRespo
FMMonthly wages	400	40 or-:222	50 or+ :178	55/45	Complete
FMMonthly expen.	400	40-90:289	100+ :111	72/28	Complete
Nclients React MF	400	pos: 92	Neg: 308	23/77	Complete
Altern.Income Sou.	259	Yes: 226	No: 33	51/8/41	141Nrespo

**Table 3.** Summary of client's responses (grey lines used for statistical comparison)

Parameters	#Respond	Classifications		%	Remarks
Sex ratio	388	M: 174	F: 214	45/53/2	12NRespo
#children	399	1-10:234	11+:165	58/41/1	1Nrespo
#SchChldn	398	4 or-:278	5 or+:120	69/30/1	2Nrespo
FHEduSta	349	None: 214	Basic:135	53/34/13	51NRespo
FHMarSta	400	Mar: 117	Unma:283	29/71	Complete
Mls P.Day	382	1 or- :184	2 or+ :198	46/50/4	18NRespo
Mls W. fruit	344	1 or- :222	2 or+ :122	56/30/14	56Nrespo
FoodSecurity	400	Yes : 123	No : 277	30/70	Complete
FamHouSize	309	1-8Rs:123	9Rs+ :186	31/46/23	91NRespo
WC Facility	400	Pit :266	None: 134	67/33	Complete
Sanitation level	400	Good: 208	Bad : 192	52/48	Complete
ApplianceOwned	380	yes : 8	No :372	2/93/5	20NRespo
Energy SS P.week	188	1 or- :180	2 or+ : 8	45/2/53	212NRespo
Interest rate	400	10 or- : 20	20 or+:380	5%/95	Complete
FMIncome source	400	MFI: 348	Wage: 52	87/13	Complete
FMMonthly wages	398	40 or-:330	50 or+:68	82/17/1	2Nrespo
FMMonthly expen.	400	40-90:294	100+:106	74/26	Complete
Clients React MF	400	pos: 104	Neg: 296	26/74	Complete
Altern.Income Sou.	400	Yes: 162	No: 238	41/59	Complete