Abstract

The creeping effect of financial crisis and economic turmoil on African economies potentially questions the sustainability of microfinance institutions, in view of the heavy investment received both from development partners and government. This study tests the hypotheses that: (i) interacting own-mobilised funds with formal institutions, microfinance organisations reach less poor clients; and (ii) concentrating on the achievement of financial sustainability causes an institution to target non-poor clients. Using data from Ghana, we revisit the microfinance argument of serving poorer clients on a commercial basis, and control for the effect of source of funds and type of institution. Unlike financial self-sufficiency, operational self-sufficiency appeared to facilitate the reaching of poorer clients. The study upholds sceptics' view of a trade-off. Categorising institutions based on source of funds, this study adds to knowledge on the future of microfinance. Formal institutions dispensing their own funds appeared to target less poor clients. Using instrumental variable estimation, plausible problems of endogeneity emerging via measurement error were observed. We instrument financial and operational self-sufficiency with density of microfinance institutions in a given location and the group-lending mechanism to resolve attenuation bias. This finding alludes to complementary development strategies and a deliberate harmonisation of microfinance intervention, irrespective of the source of funds.

Keywords: Ghana, Microfinance, Financial sustainability, Depth of outreach, Source of funds

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