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Theoretical Perspectives of Microfinance on Economic Growth and Development

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Abstract

This article examines major issues related to the theories of microfinance and its various models of intervention in poverty reduction as well as in the promotion of economic growth and development. It acknowledges the relevance of Professor Hege Gulli's theory entitled "The Microfinance Promise" as an essential framework for the economic sustainability of poor households and for the growth and development of developing nations. The study highlights the two main schools of thought — the welfarists and the institutionalists — which differ on how microfinance services should be managed and delivered to disadvantaged populations. The article focuses particularly on the debate between these two philosophical currents regarding the nature of microfinance: should it be regarded as a social intervention or as a commercial activity? The analysis clarifies and compares their respective positions on why microfinance should be viewed either as a welfare mechanism or as a business enterprise. Furthermore, the article provides a detailed description of the different microfinance intervention models, that is, the modes of fund disbursement to clients by microfinance institutions: the Individual Lending Model, the Group or Peer Lending Model, the Grameen Bank Model, the Village Banking Model, the Rotating Savings and Credit Association (ROSCA) Model, and the MC2 Model. Finally, it highlights the processes involved in collateral provision, fund disbursement, and repayment within each of these six models, while emphasizing the strengths and weaknesses specific to each.

Keywords: Microfinance; Welfare Theory; Institutionalists; Poverty Reduction; Economic Development; Intervention Models; Grameen Bank; MC2; Inclusive Financial Services.

Résumé

Cet article examine les grandes questions liées aux théories de la microfinance et à ses divers modèles d'intervention dans la réduction de la pauvreté ainsi que dans la promotion de la croissance et du développement économiques. Il reconnaît la pertinence de la théorie du professeur Hege Gulli intitulée « The Microfinance Promise », en tant que cadre essentiel pour la durabilité économique des ménages pauvres et pour la croissance et le développement des nations en développement. L'étude met en évidence les deux principales écoles de pensée : les welfaristes et les institutionnalistes, qui divergent sur la manière dont les services de microfinance doivent être

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gérés et dispensés aux populations défavorisées. L'article s'intéresse particulièrement au débat qui oppose ces deux courants philosophiques quant à la nature de la microfinance : doit-elle être considérée comme une intervention sociale ou comme une activité commerciale ? L'analyse clarifie et compare leurs positions respectives sur les raisons pour lesquelles la microfinance devrait être perçue soit comme un mécanisme de bien-être social, soit comme une entreprise économique. Par ailleurs, l'article décrit de façon détaillée les différents modèles d'intervention en microfinance, c'est-à-dire les modes de décaissement des fonds aux clients par les institutions de microfinance : le modèle de prêt individuel, le modèle de prêt de groupe (ou entre pairs), le modèle de la Banque Grameen, le modèle de la banque villageoise, le modèle des associations rotatives d'épargne et de crédit (ROSCA) et le modèle MC2. Enfin, il met en lumière les processus relatifs à la fourniture de garanties, au décaissement et au remboursement des fonds dans chacun de ces six modèles, tout en soulignant les forces et les faiblesses propres à chacun d'eux. Mots-clés : Microfinance ; Théorie du bien-être ; Institutionnalistes ; Réduction de la pauvreté ; Développement économique ; Modèles d'intervention ; Banque Grameen ; MC2 ; Services financiers inclusifs.

1. Introduction

The academia perceives microfinance as a radical change-maker. Therefore, many scholars revere microfinance because of its perceived promise to exonerate many families from the bondage of poverty (Ashfaq, 2016). For the promise to seem real, Professor Hege Gulli developed a theory known as 'The Microfinance Promise' in 1998. Ashfaq (2016) and Field, Holland & Pande (2014, 2016) gave credence to Professor Hege Gulli's microfinance theory of 1998. The Microfinance Promise Model of Gulli (1998) states that household labor, which is a crucial resource, becomes wasteful due to varied constraints, including cash constraints. Numerous governments and non-governmental organizations assume that financial constraint is the most fundamental constraint impeding poor households, and that if it is dealt with, it will be feasible for households to flee poverty. Economists declare that to break the ruthless cycle of poverty, there must be an external power that will intervene at some point in the cycle to enhance demand for goods and services. Microfinance promises not only to break the ruthless chain of poverty by bringing liquidity into the ruthless chain, but it promises to start a unique cycle of worthy turns of self-enforcing economic enablement that makes possible enhanced household welfare. Meanwhile, microfinance is often blamed by some experts for being the cause of the failure of some poor entrepreneurs. It is stressed that microfinance is not a therapy for poverty reduction, and that in numerous circumstances the conditions of people experiencing poverty have been aggravated by microfinance (Hulme & Maitrot, 2014; Mbeky, 2017).

Academics have dwelt on only liquidity as if it were the only challenge confronting households in their bid to utilize human resources productively. According to Gulli (1998), household labor becomes unproductive because of diverse constraints, with liquidity being one of them. The research community has, over the years, focused its attention on microfinance with the hope that it is the only tool that possesses the power to lift households out of poverty.

2. The two Major Ideologies of Microfinance Delivery

Two primary schools of thought have been hailed in literature for espousing the modes of implementing the concept of microfinance for the benefit of poor households. They are: the welfarists' school of thought, also known as the direct approach, and the institutionists' school of

thought, also known as the financial market approach (Morduch, 1999; Cull & Morduch, 2017). These two schools of thought have argued over the years to establish the appropriate method for the provision of financial services to people experiencing poverty. The issues regarding the fitting mode of delivering financial services to the underprivileged have generated an intense contention between these two schools of thought (Berguiga & Adair, 2015). The two schools of thought hold conflicting views about the concept of providing microfinance to clients. Whereas the welfarists claim that the business of microfinance institutions should entirely take the form of social intervention, the institutionists declare that their business should be regarded simply as pure commerce.

Despite the controversy between the two schools of thought on the modus operandi of microfinance operations, microfinance was venerated for being a tool for poverty mitigation. The year 2005 was reminisced as the year of microfinance by the United Nations, and this was the period where the institutionalists' perspective of microfinance delivery met with a global acknowledgment as compared to the welfarists' perspective of microfinance delivery (Rajdev & Bhatt, 2013). After a few years, the compliments received by microfinance in that era became debatable. In less than ten years of its growth period, the free-market microfinance industry failed in many of the economies, and doubts were raised in literature relating to its workability (Rajdev & Bhatt, 2013). This situation brought about the proclamation of the downfall of microfinance by several academics. Microfinance lost its usefulness, and challenges of carelessness and high methodical peril were detected in the microfinance sector of most economies (Rajdev & Bhatt, 2013).

Deadlock ensues between the two schools of thought when the welfarists acknowledge that the professed self-sufficiency of the institutionists can only be attained temporarily. The concept of the purported self-sufficiency of the institutionists may become a mirage until one realizes that there seems to be a concession between self-sufficiency and focusing (Dziwornu & Anagba, 2018). The most productive microfinance institutions are those that adopt and merge both welfarists' and institutionists' concepts in their quest for the achievement of the goals of microfinance. Most MFIs that have displayed self-sufficiency possess the propensity to offer microloans for borrowers who are either marginally above or under the poverty line in their individual nations (Lensink, Mersland, Vu & Zamore, 2018). These microfinance institutions have the capacity to achieve cost reduction by providing larger loans to the very poor. Even though it seems, at a particular time, that the welfarists have attempted to, in a way, justify the condition under which the self-sufficiency prophecy of the institutionists may hold, both schools of thought still hold onto their respective beliefs in the economic mode of microfinance delivery. Regardless of little evidence, knowledgeable consultants on either side of the argument hold onto their theories vehemently (Dziwornu & Anagba, 2018). Despite the disparities in their beliefs, the two schools of thought have one fundamental goal in common – outreach. Invariably, they both intend to mitigate poverty by providing financial resources for poor people who have been overlooked by the traditional commercial banks (Agyeman, 2015).

2.1. Welfarists' Perspectives on Microfinance

The welfarist scholars of microfinance are concerned with the demand side of microfinance, which means they believe in the well-being of the beneficiaries of microfinance services. The welfarists promote the idea of subsidization of microfinance programs in order to reduce the cost of operations for the microfinance institutions so that they can provide microloans at reduced interest rates for the benefit of clients (Cull, Demirgüç-Kunt & Morduch, 2017; Khan,

Shaorong & Ullah, 2015, 2017). The welfarists' school of thought has faith in the stability of subsidies. Subsidies, as a matter of fact, are still fundamental in microfinance, even for past institutions in the form of equity finance and cheap capital instead of forthright gifts (Cull et al., 2017).

The focus of the welfarists is on the lasting workability of the services of microfinance institutions and the attainment of greater outreach. Sustainability and outreach are closely related in the provision of microfinance services – there is a positive correlation between sustainability and outreach of microfinance institutions in the provision of their services (Awaworyi & Marr, 2014; Nurmakhanova, Kretzschmar & Fedhila, 2015). The welfarists fervently condemned the opinion of the institutionists concerning the financial self-support of microfinance institutions. They maintained that microfinance institutions could realize sustainability without the institutionists' explanation of self-sufficiency (Awaworyi & Marr, 2014; Yunus, 2016; Nurmakhanova et al., 2015). This implies that the welfarists do not accept the participation of venture capitalists in the achievement of the social goals for which microfinance has been brought into being. The elementary purposes of microfinance include poverty mitigation, empowerment of the poor, and support for the start-up of self-employment businesses (Cull & Morduch, 2017; Yunus, 2016). The welfarists support the concept of donor-funded microfinance services. They advocate that grants, for example, subsidies from benefactors serve as a form of equity, and in relation to that, the benefactors may be deemed investors or shareholders (Yunus, 2016). Patrons present these grants and donations. These donors are different from the capitalist investors who obtain equity in openly traded firms; hence, these donors do not expect to earn pecuniary returns on their investment in microfinance (Awaworyi & Marr, 2014; Yunus, 2016; Nurmakhanova et al., 2015). Instead of having financial interest, these donor-investors obtain an intrinsic gratification from their investments in microfinance services. These sponsors can be compared to equity investors who put their money in socially responsible funds, even if the predicted risk-adjusted return of the socially responsible fund is below that of an indexed fund (Awaworyi & Marr, 2014; Yunus, 2016; Nurmakhanova et al., 2015). The primary concern of the socially-responsible fund investors is to help the disadvantaged people in society flee their economic predicament; hence they are prepared to receive a little economic forecasted return because they also accept the intrinsic return of avoiding commitment of their funds to firms that they discover detestable.

The welfarists believe that the key performance indicators of microfinance are household-based. The success of the microfinance institutions is assessed through household surveys with particular attention to the living standards of beneficiaries: number of savings accounts beneficiaries operate, number of times loan is contracted, level of productivity improvement, level of increase incomes, capital buildup, access to social services such as education and health in addition to expenditure on food (Harish, 2014; Khan et al., 2017; Kumra & Sharma, 2018; Maleko, Basili, Deogratius, Aikaruwa, Lukas & Sumari, 2013 ; Okibo & Makanga, 2014; Rao & Priyadarshini, 2013).

Intensity is an alternative metric that welfarists use to measure the success of microfinance. Whilst the institutionists stress the broadness of scope, the welfarists concentrate on the profundity of scope and support systems that empower invigorate microfinance institutions to take care of the miserable poor, usually referred to as the underlying focus of the microfinance campaign (Khan et al., 2017; Kumra & Sharma, 2018; Okibo & Makanga, 2014). The welfarists view microfinance services as a kind of social intervention that can mitigate poverty; hence the fundamental purpose of advancing the theory of microfinance was to get rid of economic hardships. However, several scholars consider the concept of microfinance as a fiasco in its initial purpose of poverty

mitigation. Even though microfinance was introduced with much vim towards the mitigation of poverty, several academics maintain that microfinance has lost its original focus, deviating from the acclaimed social goal of wiping out household poverty in favor of profitability for microfinance institutions (Hulme & Maitrot, 2014). The commercialization of microfinance has relegated to the background people with low incomes, for whom the concept of microfinance has been designed. For reasons of profitability, the poor have been thrown out of the microfinance concept (Hulme & Maitrot, 2014; Yunus, 2016). For that matter, the institutionists' approach to microfinance service delivery has dominated the microfinance industry. Indeed, there is existing proof that the philosophies of institutionists have outshone the viewpoints of welfarists and sermonized microfinance services (Kumra & Sharma, 2018; Yunus, 2016). Perchance, the domination of the institutionists' philosophies was the outcome of the frequent vociferation of their viewpoints on the perfect mode of microfinance services delivery. Undeniably, it has been maintained that the momentum behind the dominance of the institutionists' assumption is that it absolutely promotes neoliberalism, and by this, it buttresses the theory of globalization of neoliberalism (Nurmakhanova et al., 2015).

2.2. Institutionalists' Perspectives on Microfinance

The advocates of the commercialization of microfinance look at microfinance as a means for expanding financial services. The institutionists maintain that the primary purpose of microfinance is 'financial extension' that has the potential to deliver financial services to the several disadvantaged households in a sustainable manner (Khavul, Chavez & Bruton, 2013; Rajdev & Bhatt, 2013). The institutionists' ideology is tilted towards the supply side of microfinance services. They argue that the financial health of microfinance institutions is of paramount concern to managers and investors (Ault & Spicer, 2014); hence, accessibility to a bigger asset base to support their operations in the interest of the numerous poor people is desired more than relying on donors for grants (Ngo, 2015; Rajdev & Bhatt, 2015).

The institutionists assert that the key performance indicators of microfinance services are financial achievements of microfinance institutions. They emphasize that better procedures of regulation and supervision involve low outreach to poorer clientele (as portrayed in bigger average loan amounts) but stronger financial successes for profit-focused microfinance institutions that pay for the adequate supervision of customers (Cull et al., 2014; Khavul et al., 2013; Rajdev & Bhatt, 2013). Microfinance institutions will have to charge clients higher interest rates to realize this purported financial strength. Meanwhile, interest rate and access to loans are negatively related – the reality is that the greater the interest rate charged by microfinance institutions, the lower access to microloans, and the lower the interest rate charged, the greater access to credit (Kasali, Ahmad & Lim, 2015).

Another important concern of the institutionists is the sustainability of microfinance institutions. The institutionist philosophers of microfinance maintain that a microfinance institution should be able to retrieve its costs of operations, principally the cost of time utilised in reaching the disadvantaged who live in remote areas (Cull et al., 2014; Khavul et al., 2013; Rajdev & Bhatt, 2013), with its proceeds and obtain profit since access to microfinance must not charitable at all times; hence the consequence of operating microfinance institutions for profit motives (Khan et al., 2017; Khavul et al., 2013; Rajdev & Bhatt, 2013). The concept of commercialization of microfinance institutions has led to an increase in the number of microfinance companies. The institutionists' ideology has been substantiated by the proliferation of profit-focused financial institutions, and in reaction to the fascination with the vast potential of microfinance, a more

distinct chain of postulations and hypothetical perspectives has started permeating the industry (Khan et al., 2017). This school of thought maintains that economic autonomy of the underprivileged encourages better poverty mitigation. Institutionists stipulate that self-reliance results in long-term viability for microfinance institutions, which will eventually promote more poverty mitigation (Nurmakhanova et al., 2015). They alleged that the advent of the institutionist-type microfinance institutions has choked the microfinance industry. The entire microfinance market is swallowed by an institutional standard, which has threatened the system and discovered fresh challenges of workability and transparency in its modus operandi (Ault & Spicer, 2014). The philosophy of the institutionists is related to some past circumstances in Europe. The microfinance institutional policies implemented in Germany, Italy, and the United Kingdom promoted productivity and sustainability in the 19th-century microloan provision (Cull, Demirgüç-Kunt & Morduch, 2014).

The belief of the institutionists is tantamount to that of venture capitalists. Many of the sizeable and more present-day microfinance industry participants share a programme which is founded on the capitalists' perspective of explaining economic development (Yunus, 2016). The modern microfinance industry players deem microfinance as a profit-focused scheme.

However, the profit intention of the microfinance institutions stimulates higher interest rates in the microfinance industry. The commercial aims of microfinance institutions are subject to growing interest rates on microloans to levels that are usually deemed to be greater than the rates charged to (better-off) clientele of orthodox banks (Yunus, 2016). This state of affairs has given rise to a great deal of anxiety in the microfinance business. Numerous participants in the microfinance industry are concerned about the rate at which the profit aim of microfinance is promoting imprudent credit provision (Rajdev & Bhatt, 2013). The disproportionate lending and unwarranted borrowing have triggered microfinance crises in several economies. Cambodia, Bangladesh, Bolivia, and Bosnia have suffered the microfinance crises, putting in danger the sources of revenues of borrowers and adding substantial costs to already-laden lives (Guérin, Labie & Jean-Michel, 2015).

Indisputably, the institutionists' version of microfinance service delivery is gradually shaking off its exceptionality by avoiding its original social assistance task (Khan et al., 2017; Yunus, 2016); consequently, restricting its outreach (Cull et al, 2014). Even though commercialized microfinance has lost its focus, the institutionists still hold onto their hypothesis that microfinance remains influential in leveraging the economic performance of poor households. In consonance with the belief of the institutionists, microfinance has been branded as the perfect means for these present-day participants to elevate the economic status of the poor households and produce a return, with the benefit of enhancing the name of a firm for its dependability Corporate and Social Responsibility (Khan et al., 2017; Khavul et al., 2013; Rajdev & Bhatt, 2013).

Microfinance has been continually mentioned as the all-embracing fundamental remedy for liberation of households from economic hardships. In Bangladesh, microfinance is envisaged as the comprehensive approach to achieving economic progress, bringing into realization results such as women empowerment, financial leverage, poverty mitigation, and total economic improvement and development (Khan et al., 2017; Kumra & Sharma, 2018; Okibo & Makanga, 2014; Yunus, 2016). This system of financial services provision stimulates entrepreneurial economic independence. This procedure of financial transactions is repeatedly termed as a path to economic self-sufficiency by means of entrepreneurship and as an illustration of the achievements of market-oriented options to government welfare packages (Yunus, 2016). The institutionist academics opine that running microfinance institutions as profit-oriented organizations stimulates economic

transformation. For this reason, commercial microfinance institutions are recognized for job creation, expansive consumption, attitudinal change, entrepreneurship, and commerce (Rajdev & Bhatt, 2013). The institutionists pronounce that financial sustainability is achieved in different forms. Indeed, financial sustainability does not stem completely from business earnings. However, by means of further returns, for instance, allocation of funds to microfinance will enable huge financial establishments the chance for safe portfolio expansion in capricious economic times (Yunus, 2016).

One central belief of the institutionists is that microfinance shores up entrepreneurs against unpredictable economies. This has been justified by speckled occurrences from the formal economies of their countries, that the self-employed poor are steady in times of economic stagnation (Cull et al., 2014; Khavul et al., 2013; Rajdev & Bhatt, 2013). This suggests that self-employed people who borrow from microfinance companies are fortified against economic downturns. This has been stressed by the fact that the misfortune of certainty has drawn attention to the exceptional credit risk most customers of microfinance institutions turn into (Cull et al., 2014). They also highlighted the fact that the provision of microfinance services could be a productive venture. Microfinance might be a cash cow in the foreseeable future in the banking sector (Rosenberg, Gaul, Ford & Tomilova, 2013). The institutionists have maintained that microfinance is required to conduct a sweep on a huge number of deprived households in order to eradicate poverty. They note that poverty reduction calls for a huge amount of financial resources far more than the quantity offered by NGOs and contributors (Rosenberg et al., 2013). They also hold the view that an expansion in the revenue of the business can provide funds for the launch of a sweeping assault on poverty. Therefore, microfinance companies that turn out the most considerable profit for investors pull the most significant amount of funds needed for business expansion and servicing of more customers, which reduces the highest form of poverty (Rosenberg et al., 2013). They have the belief that measuring the efficiency of microfinance from the standpoint of microfinance institutions is the overriding; hence, the accomplishments of the microfinance organizations are gauged by their expansion towards financial self-sufficiency, while the productive effects on the borrower are presumed. The judgement of the institutionists is that because people experiencing poverty are clever, from time to time, cleverer than their financiers; therefore, if the microfinance institutions grant the debtor that it is deceitful some flexibility, the borrower will misuse the microfinance someday and default in payment (Cull et al., 2014). This assertion is categorically truthful due to the unpredictable nature of people. The declaration of borrower default became reality for the industry of microfinance services (Rosenberg et al., 2013; Rajdev & Bhatt, 2013; Yunus, 2016). The borrower default rocked the economy of some countries and has been empirically evidenced. The conventional percentage of credit portfolios for which monthly repayment waned swelled from 2% in 2008 to 8% in 2009 (Rosenberg et al., 2013), and in Pakistan, microfinance was wrecked by uncooperative groups who eschew repayment of their microloans in the fourth quarter of 2008 in the province of Punjab (Rosenberg et al., 2013). Neoliberalism could be held responsible for the unproductive performance of the microfinance institutions involved. Paramount among the dynamics responsible for the unproductiveness of the microfinance institutions were intensive market rivalry and multifarious borrowing (Yunus, 2016).

The institutionists oppose subsidization in the provision of microfinance services. Institutionists found fault with and attributed the failure of microfinance institutions to the socialist philosophy of the microfinance programs. They deplored subsidisation because it generated high unpaid rates and costs of transactions, which engendered the demise of numerous microfinance policies (Dziwornu & Anagba, 2018). However, the microfinance institutions are expected to

formulate plans in dealing with their cost of operations through their revenue generation. As a result, the suitable approach to extending microloans to the numerous poor small-scale business people is to integrate microfinance into the orthodox financial arrangements (Berguiga & Adair, 2015). They intensely oppose the welfarists' assumption that microfinance should be a social intervention scheme. The institutionists state that it is unacceptable for microfinance institutions to be sponsored philanthropically and that the grants engender a fruitless allotment of the monetary resources (Dziwornu & Anagba, 2018). The financial pundits who support institutionists' philosophy vehemently oppose the socialist ideology of the welfarists on the basis of imprecision. The economic consultants of the institutionists' belief hold the welfarists responsible for making an illogical assumption when they allege that the repayment interest rate requires slashing down since clients are not worthy of credit and are unable to save, and that orthodox banks cannot sustain doing business in low socio-economic communities due to escalation in the cost of financial services provision to underprivileged households (Dziwornu & Anagba, 2018).

The cessation of several microfinance institutions was occasioned by the unsustainable hypotheses of welfarists, which warranted inquiry into the underlying factors that control the capability of microfinance institutions. An in-depth assessment of the quid pro quo between financial independence and the immensity of outreach unearthed a shift from the donation of microfinance institutions to a focus on financial sustainability and the success of the institutions, on top of an opposite connection between outreach and the efficiency of microfinance institutions (Rosenberg et al., 2013). Institutionists embrace loan balance as a key performance indicator of the depth of the outreach of microfinance. The observation was that microfinance institutions that recorded shoddier average loan balances were inefficient (Berguiga & Adair, 2015; Rajdev & Bhatt, 2013). Unquestionably, several underlying factors are involved in ascertaining the sustainability of microfinance institutions. Arranged in order of significance, an excellent credit portfolio, acceptance of proper interest rates and effective control of expenses on human resources by management are the rudiments for the financial sustainability of microfinance institutions (Berguiga & Adair, 2015; Rajdev & Bhatt, 2013). Leverage plays a key role in the financial performance of microfinance institutions. An expansion in leverage improves profit efficiency in microfinance institutions whilst cost efficiency drops with a decrease in leverage; so it is that leverage and profundity of outreach are oppositely related (Khavul et al., 2013).

3. Models of Microfinance Intervention

Models describe the means of putting into operation diverse microfinance strategies. Models denote the procedures that are employed in implementing microfinance schemes (Grameen Bank, 2016). The type of model chosen for clients is an issue of contingency. No other factors are considered in the selection of models of microfinance intervention apart from the requisites of the clients, the state of affairs of the locality of operation, and the purpose of the microfinance arrangement (Grameen Bank, 2016). Models for microfinance intervention include: Individual Lending Model, Group or Peer Lending Model, Grameen Bank Model, Village Banking Model, Rotating Savings and Credit Associations (ROSCA), and the MC^2 model.

3.1. Individual Lending Model

Under this model, microloans are granted to clients or borrowers individually. The microfinance institutions do due diligence on the feasibility of the small-scale business ventures prior to the provision of loans. A detailed appraisal of the business is done on the business ventures of the clientele of the microfinance institutions before the provision of the loan facility is executed

(Agyeman, 2015). This evaluation of potential clients assumes different dimensions. The borrowers are given their loans based on their history of performance, creditworthiness, the existing sustainability of their business, and also with recommendations (Srinivas, 2015). This model requires mutual surety from potential borrowers. For that reason, security and guarantors are demanded from clients to ensure that repayment is done promptly (Agyeman, 2015). Acquaintanceship with prospective customers is the main characteristic of this model of microfinance intervention. Categorically, credit officers of this model take care of clients who have been in contact with microfinance institutions for a period of time (Agyeman, 2015). This model of microfinance intervention applies to small-scale enterprises that operate in the metropolises. It suits huge and city-located, industrial-focused small-scale enterprises and for borrowers who are willing to offer collateral or a collaborative signatory (Srinivas, 20015).

3.2. Group Or Peer Lending Model

This model endorses the communists' view for contracting loans from microfinance institutions. The supporters of this model maintain that funds should be lent to groups rather than to individuals (Agyeman, 2015). The proposers of this model believe that the different people in the group acquire some kind of synergy. The proposers of this model argue that the individual lending model is burdened with many drawbacks, and these weaknesses can only be resolved when loans are advanced to groups rather than individuals (Srinivas, 2015). This model has mechanisms that protect the lender against default and enhance loan repayment. This high degree of loan repayment has a constructive effect on the bottom line of the microfinance institutions (Kodongo & Kendi, 2013; Srinivas, 20015). Cooperativeness is the strength of the group or peer lending model. Through this camaraderie, group members stand surety for one another and ensure that every member reimburses of their loans (Agyeman, 2015). Solidarity is the collateral for all members; hence, the issue of orthodox collateral is absent under this model of microfinance intervention. The conventional collateral is replaced with comradeship and the mutual duty assumed by all group members (Agyeman, 2015). A considerable advantage microfinance institutions enjoy is that their credit officers are relieved of the issue of credit assessment. It is the responsibility of the various group members to assess the creditworthiness and moral level of each fellow for inclusion in the group of potential borrowers (Agyeman, 2015). Undoubtedly, credit officers have adequate time to carry out equally relevant tasks of their company. This buttresses the statement that a few errands are left to be performed by the microfinance institutions in doing due diligence on clients (Srinivas, 2015).

3.3. Grameen Bank Model

The implementation of this model of microfinance delivery is time-consuming and overwhelming. Under this model, the credit staff are fundamentally engaged to establish a potential village where essential tuitions are conducted for about two weeks in the village to sensitize prospective customers on the concept, regulations, and processes of the microfinance institution program (Agyeman, 2015; Grameen Bank, 2016; Sridhar, 2015; Srinivas, 2015). The trainees are free to create their own groups and membership of the groups is acquired of one's own volition. After the traineeship, a group of five distinct, self-selected upcoming borrowers is set up (Agyeman, 2015; Grameen Bank, 2016). The majority of these groups develop into branches in the village. About eight of the five-member groups represent a village center, and the village centers, in turn, make up the regional branch offices (Agyeman, 2015; Grameen Bank, 2016). The officers get enough time and capacity to carry out huge volumes of work. This model makes it possible for

the branch officers to work with about 300 clients (Grameen Bank, 2016). After coaching the customers, the officers only pay visits to them. They educate and visit their clients and their enterprises, but do not do due diligence on clients for personal loan appraisal (Grameen Bank, 2016; Sridhar, 2015; Srinivas, 2015). After the tutoring, clients are permitted to conduct their own businesses. The member-clients, autonomously, manage the provision of microloans for themselves (Grameen Bank, 2016; Sridhar, 2015).

The fundamental requirement is that individuals who want to apply for microloans have to set up solidarity groups. Potential borrowers must form fresh groups of five members for each group, organise and save money for at least four weeks with the microfinance institutions before the approval and distribution of loans (Agyeman, 2015; Sridhar, 2015). The members themselves conduct their own regulatory and supervisory functions. This method of saving and accessing loans is completely supervised by group members in this fashion: Primarily, the group appoints a leader, whose position is rotated among members, and also settles on the nature of rotation required to apply for a loan (Grameen Bank, 2016; Sridhar, 2015). In the beginning, the loans of only 40% of the group members are approved and disbursed. This is warranted by the ability of the group to save money for the requisite length of time (Agyeman, 2015). The attitude of the early receivers towards reimbursement and savings determines the chance of borrowing of the second batch of the group (another 40% of the group members). The timeliness of repayment, within an average five weeks, from the first beneficiaries is a must for the loan approval for the second half of the group (Agyeman, 2015; Sridhar, 2015). Thorough commitment to repayment remains the main factor in providing loans to all members. In due course, an additional month of continual refund is applied to appraise and give the credit to the last member of the group, who is, time and again, the chief of the group (Agyeman, 2015; Grameen Bank, 2016). Members, under this model, are overseers of all other members in the group. Each member of the group is obligated to play a supervisory role in the refund of their loans, irrespective of the time each member was granted the credit facility; hence, other members are held responsible for the default of others in repayment (Agyeman, 2015; Grameen Bank, 2016; Sridhar, 2015; Srinivas, 2015).

The default of one member in payment is contagious; hence, no member is granted any loan until the last member of the group has paid. This sense of collectivism serves as security for the loan members have received (Agyeman, 2015; Grameen Bank, 2016). The Grameen Bank model was designed on the tenets of communists' view of well-being. The Grameen Bank model was designed on the principles of socialism in that it has rigorous social rudiments other than their repayment plans (Agyeman, 2015; Grameen Bank, 2016). These social fundamentals are basic to sustenance of mankind. Education of one's children, attention to the health of one's own family, and commitment to the cultivation of vegetables during the course of each year are a few of the contents of their 'Sixteen Decisions' text (Agyeman, 2015; Grameen Bank, 2016). The model is categorically predisposed to countryside residents. For that reason, it is most suitable for extremely populated rural suburbs where farming and petty trading are predominant (Dziwornu & Anagba, 2018; Grameen Bank, 2016).

3.4. Village Banking Model

This model provides the prospect for a microfinance institution to be brought into being and managed by local people. The village banking model is a communally built credit and savings society created to offer rural people access to credit facilities (Agyeman, 2015). The primary purpose of the village banking model is to build up capital for the benefit of members. The fundamental goal of the village banking model is to develop self-support groups and make it

possible for members to accumulate savings for their own advantage (Srinivas, 2015; Agyeman, 2015). The model is built on a shared purpose of ownership. Membership is restricted to 25-50 low-income receivers whose fundamental aim is to expand their financial resources through self-employment to set up a bank (Srinivas, 2015).

The village banking model permits the introduction of financial resources from external sources for reinforcement. The internally organized funds are shored up from external financial organizations (Agyeman, 2015). Mutuality is the hallmark of this model in terms of collateral for loan security. This model has made collateral seamless in that the system of cross surety has replaced the physical collateral; hence, each member of the bank makes sure that other members reimburse the loan religiously (Agyeman, 2015). Another unique feature of the village banking model is that the managers and supervisors of the village bank are chosen democratically. The regular members, through votes, decide on their officers from among themselves to run the daily affairs based on the constitution developed by themselves (Agyeman, 2015). Loan provision is open to the entire membership of the village. This model aims to bring into being a village bank of twofold purpose: to attain financial self-sufficiency of members and also make available microloans to all members of the village in which the bank is founded (Srinivas, 2015; Grameen Bank, 2016).

3.5. Rotating Savings and Credit Association

This model has been founded on the premise of communism. This model advocates putting together individuals who are prepared to be regular recurrent contributors to a common fund, which is afterward disbursed to members in series (Agyeman, 2015; Srinivas, 2015). A case in point is that a group of ten members can be set up, who are faithful to making a periodic weekly contribution of GH₵1000, and the lump sum of GH₵10000 is loaned to each member of the group on a weekly basis until every member is given their share of the lump sum.

This model is not subject to external injection of funds and supervision. Loan provision to one another, through this model, is highly sustainable through the repeated contributions of members (Agyeman, 2015; Srinivas, 2015). Payment to the fund is more regular than the frequency of reimbursement of the loans. Monthly reimbursement of the amount begins immediately a member is given his/her allotment. Just after receiving the lump sum, a member then settles the amount in uniform monthly contributions (Srinivas, 2015; Agyeman, 2015). The sequence of loan allocation to members is done democratically. The sequence can be determined through draw, request or consensus any other mode acceptable to the members (Grameen Bank, 2016; Srinivas, 2015).

3.6. Mc^2 Model

MC^2 are rural development microbanks formed and run by a community in tandem with their local tenets and norms. The chief advocate of the MC^2 concept, Dr. Paul K. Fokam, got motivated by Einstein's illustrious formula: Victory over Poverty (VP) is feasible if the Means (M) and the Competences (C) of the Community (C) are blended (Fotabong, 2011). Consequently, the formula VP=M*C*C=MC^2. To be precise, MC^2 is a community-founded micro-banking method through which people, mostly the disadvantaged, try to be self-reliant, generate income with the intention of enhancing their living conditions in a continuous way. The model is of two types: a rural type, MC^2, and an urban type labeled MUFFA. The additional form of the model is entirely for women because surveys and personal studies of the originator indicate that urban women are mostly underprivileged. Through MUFFA, these disadvantaged women get easy access to financial

services that support them to commence job creation and revenue-generating enterprises (Fotabong, 2011).

Accordingly, the model is founded and sustained by four significant stakes. These are the local populations, the non-governmental organization (NGO) Appropriate Development for Africa (ADAF), AfriLandFirst Bank Group, and some national transnational sponsors.

The objectives of the MC^2 micro bank include:

- To acquire economic and financial sustainability from the viewpoint of the microbank, the individual, and the group members.
- To focus on the underprivileged, micro and small-scale enterprises and subsequently return self-esteem to target beneficiaries to experience the importance of being controllers of their own fate.

The establishment of an MC^2 microbank is made up of five steps:

- Keeping the underprivileged informed and increasing their knowledge.
- Marshaling resources.
- Funding individual revenue-generating enterprises.
- Sponsoring common-interest economic tasks.
- Executing social development projects.

The weaknesses of the MC^2 model include: the delay in accumulation of resources, the inadequacy of resource assemblage to only faithful advocates because of the savings interest rate of 2.5%, the model's seeming appearance of being more of an allocation conduit for the link bank, and the anxiety that the shutdown of the link bank might generate (Fotabong, 2011).

Despite its weaknesses, the MC^2 is preferred to other microfinance intervention models. Its superiority over other microfinance intervention models is due to its hallmarks of powerful community identity, its sustainable interest rate, and the four-pillar approach (Fotabong, 2011). The microbank is the property of the local people. It is a bank established by the people, owned by the people, managed by the people, and supervised by the people in holding onto their culture and representativeness (Fotabong, 2011).

4. Conclusion

The practice of the microfinance concept was initiated by Professor Muhammad Yunus of Bangladesh in 1976 when he secured a loan of US$27 from a state bank to lend to the underprivileged for entrepreneurial business. Professor Gulli's theory of "The Microfinance Promise" is a novelty in the financial sector of every developing nation in that it promises adequate financial inclusion for economic growth and development.

Literature has revealed abundant information on the approaches to microfinance administration – the welfarists' approach, the direct approach, the institutionists' approach, and the financial market approach. The debate on the system of fund management by microfinance institutions has been intense. Both welfarists' and institutionists' schools of thought have been entrenched in their positions on the right method of administering microfinance funds. Literature shows that both the welfarists' and institutionists' beliefs have their strengths and weaknesses; hence, neither of them is complete or perfect in itself. While the welfarists regard microfinance delivery as an act of benevolence, the institutionists believe in cost recovery and allege that accessing clients in sparsely populated areas requires more expenses and time. For that matter, microfinance institutions should be treated as a business so as to recover their costs of operations. Therefore, a combination of both theories can bring down the tone of the controversy surrounding the issue of the right method of managing the funds of microfinance institutions. The models of

microfinance intervention, namely: Individual Lending Model; Group Lending Model; Grameen Bank Model; Village Banking Model; Rotating Savings and Credit Association Model, and MC^2 Model, are issues of contingency. It has been deduced from the literature that the model adopted for the delivery of microfinance to clients is informed by the ability of the clients to repay the microloans to the lending microfinance institutions.

Literature has revealed a significant positive relationship between the use of microloans by entrepreneurs and the economic growth (GDP) of a nation. It has also been identified in literature that access to microfinance alone does not promote socio-economic development. Therefore, microfinance institutions need to provide entrepreneurial skills training, literacy and numeracy skills and book keeping services in addition to the microloans for the realisation of the professed positive impact of microfinance on poverty alleviation and socio-economic development. It must be understood that clients of microfinance institutions who have not acquired basic skills of life cannot put their borrowed funds to productive use; hence they become economically worse-off than ever and face reimbursement challenges.

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