

The Risk Of Microfinance Sudan Experience In Microfinance Higher Cost

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ABSTRACT: The purpose of this research is to investigate and focus on the high cost of microfinance loans which are provided by banks. The high costs are one of the main problems, facing the microfinance programs in its pursuit to help the poor and the low income households. This research followed the descriptive approach, to investigate the problem of this research. Questionnaires were used as the main data collection tool, and statistical analysis was used to analyze the answers of the questionnaires in order to achieve the objectives of the research.

Keywords : Microfinance, Higher cost.

INTRODUCTION

Microfinance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. Since then several microfinance institutions came up and have succeeded in reaching the poorest of the poor, and have devised new ground-breaking strategies with time for the fulfillment of their vision. Microfinance is now being considered as one of the most important and an effective mechanism for poverty alleviation. Moreover, microfinance improves the income of poor and provides them with opportunities that help them evaluate their living conditions. . This is why many countries (including Sudan) have adopted such method and put it amongst their strategies.

Historical Background of microfinance in Sudan

Microfinance was recognized as a priority sector for Sudan in the mid-1990. The demand for microfinance services is substantial. However the industry only covered 1-3 percent of the potential market. Ninety percent of the population in Southern Sudan is estimated to be living on an income of less than USD1 per day. During this time Islamic values have traditionally played an important role in the operation of Sudanese microfinance. In 2005 under the peace agreement only conventional banking were allowed in the South. In 2007 Sudan has officially created a specialized microfinance unit at the central bank of Sudan. In 2009 the Central Bank of Sudan has encouraged development of microfinance, aimed at social needs such as housing and agriculture as well as the deepening of Islamic banking. Recently, the Central Bank of Sudan, North State branch has started the promulgation of microfinance project culture amongst institutions, sectors and citizens, making extra effort to improve the living conditions of the poor.

Problem Statement

The purpose of this research is to investigate the risk of microfinance cost to the recipients as well as to lending banks and assess its impact on the success of microfinance program in Sudan.

Main Reasons for the Problem

The main aim of microfinance is to provide poor and low income households with an affordable source of financial services. Interest charged on loans is the main source of income for these institutions and, because they incur huge costs, the rates are correspondingly high. This reflects the risk that both partners can face.

Significance of the Research

This research is conducted in order to assess

- The size of interest rates required by microfinance lenders and the risk of huge cost.
- To highlight the risk that poor people will face to pay back the loans and its high interest rates.
- More over there is few researches done in this area.

Objectives of Research

In order to encourage poor people to inquire for microfinance loans and ask for services from banks and other institutions to improve their living conditions the following objective have to be considered: Institutions that offer microfinance have to lower their interest rate to avoid the risk of microfinance higher cost. Central Bank to establish an on-going basis constructive dialogue with banks, organizations, media and other sectors on issues relating to the microfinance sector to meet the needs of the poor and to mitigate the risk.

Hypotheses

Poor people will be encouraged to inquire for microfinance loans to solve their poverty problems, if the cost of microfinance is reasonable. Needy people will be able to meet their needs and wants more easily, if loans terms of payment are paid in small installments over long periods

Target Population

The targeted population of the study is Development Industrial Bank and other banks that offer microfinance services in Sudan and the recipients of microfinance as well.

Methodology

To meet the research objectives, the research is going to be based on analytical, quantitative and qualitative

methods. Statistical software packages will be used to analyze the collected data (SPSS will be used).

Data Collection

Two types of data sources will be integrated; secondary data and primary data. Secondary data is used to gain initial insight into the research problem, it is required in the preliminary stages of research to determine what is known already and what new data is required. Primary data is data that did not exist before. It is designed to answer specific questions of interest of the researcher.

Secondary Data

Secondary data will be obtained from the internet, text books, news and journals.

Primary Data

Questionnaire will be used to collect primary data. The original questionnaire will be developed in English; however, it will also be translated in Arabic for the recipients of microfinance.

Research Outlines

The research is comprised of five chapters: The first chapter contains a brief introduction as well as Historical Background of Microfinance in Sudan, the statement of the problem, the significance of the research, the objectives of the study, the hypothesis and methodologies used; while the second chapter consists of literature review. The data collection, questionnaire and sample design is included in chapter three. The results obtained by the SPSS are analyzed and discussed in chapter four, furthermore the findings, recommendations and conclusions are portrayed in chapter five.

Research analysis and findings:

The main purpose of this research is to investigate on microfinance higher cost and its effects on borrowers. The main findings for this research can be concluded as follows, from two points of view the banks vision and the borrowers view:

1. Microfinance borrowers are mainly three categories: The economically active poor, people aims to start small new business and finally ordinary people. Banks majority borrowers are the economically active poor, mainly individuals or groups.
2. Microfinance borrowers are from both genders, males and females, their ages varies between 25 and 65 years old, they are from different classes some of them are uneducated, others education differ from basic up to university. The majority are without jobs, seeking to start small businesses to help them get some of the basic needs of life, others are employed and self employed aiming to improve some of their life requirements. They knew about microfinance through different sources, media, microfinance institutions but the most popular source was through friends, colleagues and neighbors, in brief words of mouth.
3. Microfinance cost is unfixed and it varies from bank to bank according to many reasons. The main factors are: Nature of the project to be financed, high administration expenses of Microfinance, amount and period of the loan, loan losses, profit needed to expand their

capital, expected future growth. This study shows that most of the banks agreed that microfinance cost is over 12%.

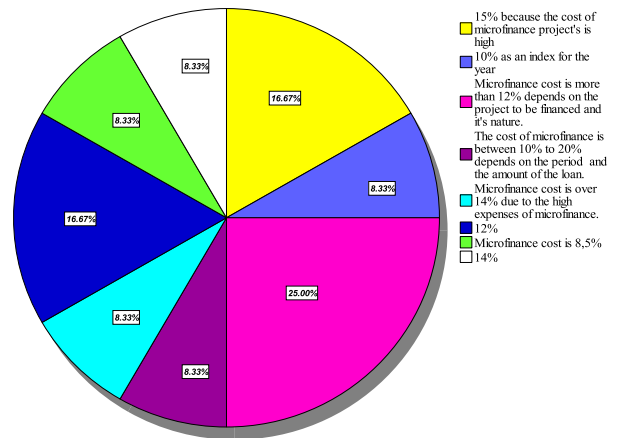


Fig.1, Microfinance Costs

4. Microfinance costs are set up according to the Central Bank policy, and the bank's own policy, with all these policies in consideration still microfinance rates are very high. This is because microfinance scheme is very costly, as well as it is unsecured.

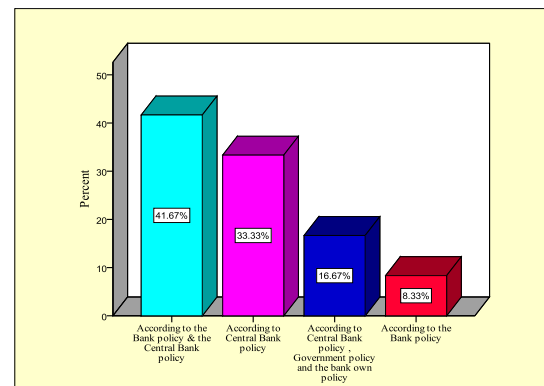


Fig.2, setting of microfinance cost

5. Competition between microfinance lenders i.e other Microfinance Institutions is not a factor which will reduce microfinance costs.

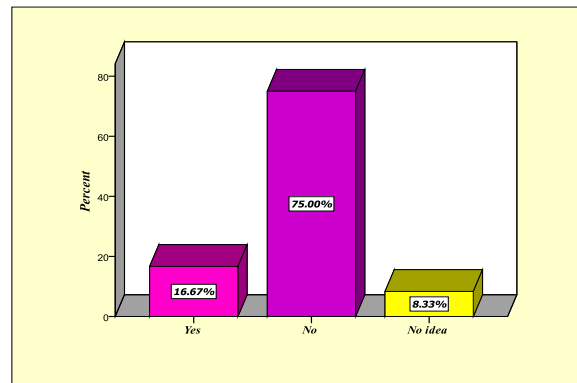


Fig.3, Competition among microfinance lenders

6. Banks prefer variable microfinance costs than fixed costs to encourage all categories of people to take advantage of microfinance loans and everyone according to his/her/their situations and needs. In addition banks hope that microfinance would be a promising instrument to help in reducing Sudan poverty.

Table1, Variable Microfinance Cost is Preferable to the Bank than FixedCost

Fixed Cost is Preferable	Number of Banks	Percent
No	7	58.33
Yes	5	41.67
Total	12	100

7. Most of the banks take 3 to 4 months to finish the processing of Microfinance Customers Applications, only few applications take a long period to be processed. Most of the customers received the microfinance loans after a time and only few got it as soon as they applied.

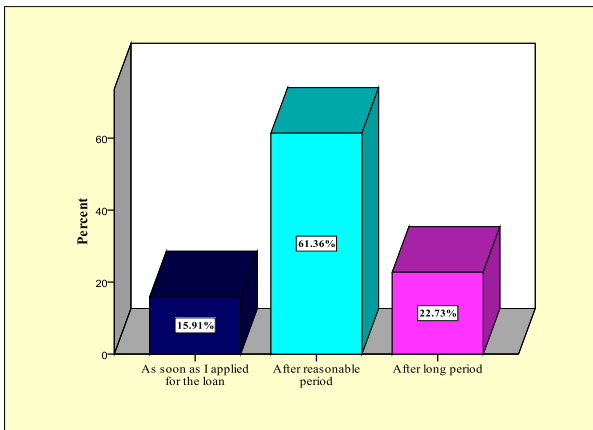


Fig.4, Period taken by the bank to hand customer the loan

8. Banks finance all sorts of customers' projects: Agricultural, Industrial, Commercial, Educational, Health and Entertain. Different guarantees are given by borrowers: Unions guarantees, personal and secured cheques.

9. Quite a good number of customers started their projects as soon as they obtained the loans, in the contrary some haven't start their projects yet because, they face problems such as lack of outstanding government documents, lack of finding the suitable place. The bank gives the microfinance borrowers a period of 12 to 60 months (according to the type of project) to pay back their installments.

10. Most of the borrowers, who started their projects, as well as those who were unable to start their tasks, face great financial problems to pay back the loans due to their unprofitable projects and mainly the higher cost of microfinance.

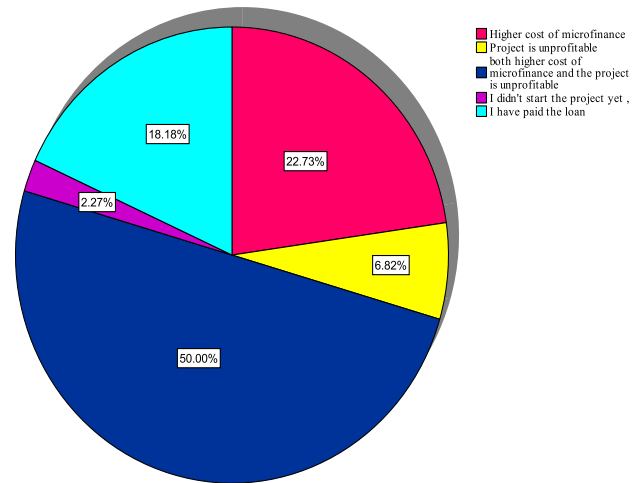


Fig.5, Reasons facing the borrowers to pay back the bank installments

Conclusion/Recommendations:

1. Microfinance borrowers struggle a lot and they face hard time to pay back the loan, because of its high cost which is required by the lenders. **In conclusion** if the cost of microfinance is reasonable, poor people and others will be encouraged to apply for microfinance loans to improve their livings, on the other hand, banks incur large cost on administering tiny loans and it is much higher than the cost of making large loans. For this reason competition among banks to offer microfinance will not reduce these costs. The alternative to reduce these costs is by expanding or covering more applicants to be financed so that costs to be spread over more recipients.
2. One way to increase the volume of lending and achieve this competition to lower their costs is by targeting and training microfinance clients in different fields by subjecting them to (entrepreneurship program) by which they will be able to evaluate their projects and select profitable ones for financing. This will reduce the credit risk of microfinance and make it appealing to banks.

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