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Abstract

The study evaluated Microfinance as a tool for poverty reduction in Ghana using central region as a case study. A survey design involving quantitative, qualitative and participatory methods within the framework of impact assessment techniques was used. Simple random and stratified sampling methods were employed to select five Microfinance Institutions (MFIs) and one hundred microcredit beneficiaries. The study made use of both primary and secondary data. It was found out that though there are challenges microfinance has a positive impact on poverty reduction. Among the recommendations were that microfinance clients should be trained before and after disbursement of the loan; and also they should be effectively monitored. In addition to the above recommendations it was concluded that if the challenges facing the Microfinance sector (eg; inappropriate institutional arrangement, poor regulatory environment etc) are addressed microfinance will be a potent tool for poverty reduction not only in Ghana but all developing countries at large.

Key Words: Micro Finance, Poverty Reduction, Poverty, Millennium Development Goals (MDGs), Microcredit

Introduction

It is widely accepted that one major cause of poverty in developing countries is lack of access to productive capital, with formal financial institutions mostly excluding the poor in their lending activities (Chirwa, 2002).

One strategy in many developing countries has been to implement Microfinance programmes to offer credit to the poor. Ghana is no exception. Through a number of impact analysis it has been proved at international levels that Microfinance programmes contribute to the achievement of several aspects of the Millennium Development Goals (MDGs) including poverty reduction; and from the success stories of countries like Bangladesh, many developing countries including Ghana have formally introduced microfinance as one of the interventions to reduce poverty.

In Ghana, even though Microfinance has existed in some form for many years various

governments formally and consciously started implementing the strategy to deal with poverty in the 1990s.

Existing Microfinance Interventions in Ghana

Every region in Ghana appears to have some coverage of Microfinance activities in the rural and urban areas. The mix of activities is through Government of Ghana (GOG) programmes, Donor assisted programmes, Microfinance institutions (such as rural banks, savings and loans companies, credit unions, NGOs, etc), District Assembly initiatives, Community-based initiatives, Church-based programmes ,etc. Some of the microfinance programmes include Financial Sector Improvement Project (FSIP), Financial Sector Strategic Plan(FINSSP), The Rural Financial Services Project(RFSP), UNDP Microfinance project, Social Investment Fund (SIF), and Community Based Rural Development Programme(CBRDP) etc.

The statement of the problem

Since the early 1990s, there have been various microfinance interventions both by the Governments and development partners like UNDP, USAID etc to reduce poverty in Ghana. Evidence from Bangladesh, Bolivia, and some developing countries suggest that microfinance can be a very potent strategy to reduce poverty.

The researcher's concern was to assess the extent to which Microfinance has impacted on poverty reduction in Ghana in general and the central region in particular. In other words based on the success stories of Bangladesh etc, the researcher was motivated to conduct a study into the impact of microfinance as a tool for poverty reduction in Ghana in general and Central region in particular .

Purpose/objectives of the study

The main purpose of the study was to find out the effectiveness of Microfinance as a tool for poverty reduction in Ghana in general and Central region of Ghana in particular. The study also examined the challenges faced by the Microfinance sector in Ghana.

Research Questions

Baed on the above purpose of the study, the questions that the study addressed were; Is microfinance an effective tool for poverty reduction in Ghana in general and the central region in particular? What are the challenges faced by the Microfinance sector?

The Concepts of Microfinance and Microcredit

Microfinance according to Ledgerwood (1999) is the provision of financial services to low-income clients, usually self-employed and engaged in income Generating Activities (IGAs) or micro enterprise. UNDP, Microstart(1997) also defines Microfinance as the provision of credit, and other financial services like

savings, and insurance to micro, small and medium scale enterprise. Furthermore, Otero (1999, p.8) also defines it as “the provision of financial services to low-income poor and very poor self-employed people”. Microcredit on the other hand refers to small loans to microenterprises. Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

Related Literature

The concept of Microfinance is not new in Ghana according to Asiamah & Osei(2007), Amoah(2008). Traditionally Ghanaians have saved with and taken loans from individuals and groups within the context of self-help to start businesses or farming ventures.

According to available evidence the first credit union in Africa was established in Northern Ghana in 1955 by the Canadian catholic missionaries; and also *susu* which is one of the microfinance methodologies, is thought to have originated from Nigeria and spread to Ghana in the early 1990s (Amoah,2008; Asiamah & Osei,2007).

The main goal of Ghana's Growth and Poverty Reduction Strategy (GPRSII) is to ensure sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment. According to the 2000 population and Housing Census, 80% of the working population in Ghana is found in the private informal sector. This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy (Ghana Microfinance Policy, 2006). In agrarian economies, gains arise when poor farmers have access to credit and technical knowhow, when they have social safety nets like income support and when food aid is targeted (Khan & Bashir, 2011).

The issue of whether or not Microfinance is an effective tool for poverty reduction compared to other alternative strategies has

engaged the attention of development economists and the world at large. Is microfinance a tool for poverty reduction? In an attempt to address this question, Adams and Pischke (1992) compared modern (1990 era) Microfinance Institutions (MFIs) to the failed rural credit agencies and Agricultural development banks established by governments of developing countries in the 1960s and 1970s that not only did nothing to advance poverty alleviation but also wasted millions of dollars of public funding and concluded that the modern MFI industry is destined for failure because of the similarities between the two.

Buckley (1997) after analyzing field summary data from Kenya, Malawi, and Ghana concluded that fundamental structural changes in socioeconomic conditions and a deeper understanding of the informal sector behaviour are needed for microfinance to prove effective. In contrast, Woller et al. (1999), after assessing the current microfinance companies believe that the movement is very different from the failed rural credit agencies of the 1960s and 1970s, thereby making direct comparisons between the two not perfectly valid. In partial support of the above, Woller and Woodworth (2001) argue that to date, top-down macroeconomic poverty alleviation and development policies also have likewise experienced significant failures.

Other studies reach more ambiguous conclusions about the effectiveness of microfinance as a policy tool. Analyzing Microfinance Institutions (MFIs) in Nepal, Bhatta (2001) asserts that due to the topology and extreme poverty levels in Nepal, it will be difficult for MFIs to have any meaningful impact on poverty. Nonetheless, he goes on to suggest that MFIs should expand into the hill and mountainous areas and target women so as to increase the probability of success. As to whether Microfinance is an effective poverty alleviation tool or not the study by Snow and Buss (2001) in sub-Saharan Africa concludes that a comprehensive and a better goal-oriented assessment is needed

to determine if microfinance is an effective policy for poverty alleviation.

According to Morduch and Haley (2001), there is extensive evidence that microfinance has a positive impact on the first Millennium Goal: that the number of people living in extreme poverty (defined as those living on less than \$1 per day) will be reduced by half between 1990 and 2015. For instance: Hossain (1988) asserts that "Grameen Bank members had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group nonparticipants in the project villages". A research conducted by Asiamah and Osei (2007) revealed that the microfinance sector in Ghana face the following challenges: inappropriate institutional arrangements, poor regulatory environment, inadequate capacities, lack of coordination and collaboration, poor institutional linkages, no specific set of criteria developed to categorise beneficiaries, channeling of funds by Ministries, Departments and Agencies (MDAs), lack of linkages between formal and informal financial institutions, inadequate skills and professionalism, and inadequate capital. Again the traditional commercial banking methodology which requires documentary evidence, long standing bank-customer relationship and collateral does not work since most micro and small enterprises do not possess those requirements. The commercial banking system, which has about twenty three (23) major banks, reaches only about 5% of households and captures 40% of money supply.

Another research conducted by Amoah (2007) concluded that the microfinance sector of the Ghanaian economy could serve as one of the most effective strategies for poverty reduction in the country if Government accepts the responsibility to empower the sector to operate as a legal financial sector to augment the traditional banks to bring financial services to the grass root communities. He added that a very large segment of the rural community still has no access to micro financial services.

According to the UNDP report (2010), Ghana is the first country in sub-Saharan Africa to have achieved the Millennium Development Goals (MDG1) that aims at eradicating extreme poverty and hunger. This according to the report was achieved mainly by the significant improvement in economic growth over the past decade with accompanied sound social economic policies on poverty reduction. It further indicated that the establishment of the capitation grant, school feeding and the Livelihood Empowerment Against Poverty (LEAP) were all initiatives that partly contributed to the achievement of MDG1. However, a research conducted by Kunateh(2011) indicated that the microfinance sector is on the verge of collapse. This is due to the refusal of beneficiaries of some microcredit schemes including the Microfinance and small loans Centre (MASLOC) to pay loans owed the sector.

Methodology

The research employed survey methodology. It combined relevant aspects of quantitative, qualitative, and participatory methods within the framework of impact assessment techniques. Microfinance institutions who are the providers of micro-credit (including government agencies) and the beneficiaries of Micro-credit formed the population of the research. Simple random sampling was used to select five (5) microfinance institutions, while stratified sampling technique was employed to select one hundred (100) beneficiaries of the micro-credit. The selection of the respondents was guided by the following procedure: Identification of the sample frame; determination of appropriate sample size and; distribution of the selected sample size to ensure proper representation of the client population. In determining the sampling frame, the basic criterion was that the client had been on the scheme for a minimum period of 12 months which was necessary for clients to have experienced some form of impact in their lives and businesses. Stratified sampling procedure was employed to distribute the chosen

sample to the various categories of clients defined by business sector, size of enterprise, gender and level of education etc. Since the majority of the beneficiaries of micro-credit are illiterates and semi-literates who live in the rural areas, the research used a combination of interview and questionnaire, case studies, and focus group discussions to collect the primary data. The questionnaire and interviews were used to collect both quantitative and qualitative data from the respondents (individual Micro and small scale enterprises, and Microfinance Institutions) who fell within the sample. Case studies were used to assemble more detailed qualitative information/data from a few selected micro-entrepreneurs who have unique impact experiences. This method revealed interesting client stories and important impact statements. The participatory approach on the other hand was in the form of focus group discussions which examined divergent or differing opinions about certain issues and also validated contradictions in some of the information emerging from the use of the other survey instruments. Secondary data mainly involved a review of related literature on Microfinance and poverty reduction. The financial situations of the clients before and after joining the microfinance scheme were compared to examine the extent of the change in their financial position as a result of the Microfinance programme. Here the assumption was that the respondents were able to accurately remember their conditions before joining the scheme if they did not have records of the data. Simple tables were generated to analyse the data.

Analysis and Discussion of Results

Sector analysis of data

From table 1, it is evidently clear that majority (58%) of the respondents are engaged in buying and selling (commerce), which is a characteristic of a developing country. The researcher interviewed the respondents to find out why they have chosen to be in their respective sectors of operation. The following were some of the

responses that came from those engaged in commerce: the sector is relatively more lucrative, the rate of turnover is relatively quicker, so one can repay the loan on time compared to the other sectors, it is relatively less stressful or less tedious.

Table-1 Sector Analysis of the Microfinance Beneficiaries:

Sector	Number of beneficiaries	Percentage
Agriculture	24	24%
Commerce	58	58%
Manufacturing	16	16%
Service	2	2%

Total 100
100%

Source: Field survey, 2010

Even though Ghana is an agricultural country, from the above statistics relatively few (24%) of the beneficiaries or respondents were in the agricultural sector. In other words it can be said that either the micro-credit providers are very cautious in loaning to the agricultural sector, or the players in the agricultural sector (Farmers and fishermen) themselves do not want to go for the micro- loan.

The following were some of the reasons given by the micro-credit providers for the relatively small representation of the players in the agricultural sector: It is relatively risky to invest in agriculture because of its dependent on weather/climatic conditions which is unpredictable, so an extreme care should be exercised when granting loans to the players in the agricultural sector.

Again empirical evidence has it that a greater percentage of loan defaulters are those engaged in agriculture especially farmers. Furthermore application of modern technology is absent, and a negligible (an infinitesimal) proportion of their farms are on large scale. However, they attested that those in poultry and livestock farming are better even though they also have their challenges especially when there is outbreak of diseases.

Frequency of Loan repayment

It was realized from the survey that majority of the respondents made weekly payments, while few repay on daily, monthly, or quarterly basis. Most of these repayments or savings are made through Susu collectors who represent the microfinance institutions. It was also realized that female beneficiaries were able to repay their loans on time ahead of their male counterparts. Out of a total of 100 clients or respondents, 6% repay daily, 74 % repay weekly, 16% made monthly repayment, 2% repay quarterly and 2% repay randomly.

Table-2 Frequency of loan repayment

Frequency of Loan repayment	Number and percentage of beneficiaries
Daily	6 (6%)
Weekly	74 (74%)
Monthly	16 (16%)
Quarterly	2 (2%)
Randomly	2 (2%)
Total	100 (100%)

Source: Field survey, 2010

Adequacy of Loan sizes

On the question of loan sizes 34 respondents, representing 34% attested that it was adequate for their respective businesses, while 66% (66 clients) claimed that the loan amounts granted them by the MFIs are inadequate to effectively run their businesses to achieve the expected profits/results. The above implies that the loan amounts should be increased so as to have the needed impact because majority of the beneficiaries are not satisfied with the amount.

Challenges faced by the Microfinance sector

On the question of the challenges faced by the microfinance sector, all the microfinance institutions enumerated the following: inappropriate institutional arrangements, poor regulatory environment, inadequate capacities, lack of coordination and collaboration, poor institutional linkages, no specific set of criteria developed to categorise beneficiaries, lack of linkages

between formal and informal financial institutions, inadequate skills and professionalism, inadequate capital and loan default by some clients. This confirms the result of the research conducted by Asiamah and Osei(2007).

Impact of Microfinance on the lives of the beneficiaries (respondents)

Table-3 Impact of microfinance on the beneficiaries (respondents)

Impact	Number of beneficiaries	Percentage (%)
Positive	92	92%
Negative	8	8%
Total	100	100%

Source: Field survey, 2010

On the impact of microfinance an overwhelming majority (92%) of the sample expressed a positive view of the programme. In other words, according to them microfinance programme has impacted positively on their financial position. It has enabled them create wealth and hence reduced poverty. For instance a greater and significant percentage of the respondents stated the same responses, such as:

“Microfinance programme has enabled me educate my children, the programme has enabled me build a house”, “I have expanded my business as a result of my participation in the microfinance programme”, “I am now able to provide for my domestic needs”, “My capital base has expanded as a result of my participation in the microfinance programme”, “I have been able to buy mosquito net to prevent malaria”, “I have been able to make weekly savings”, “I am now able to meet my family’s medical and utility bills”, “I no more buy goods on credit”, “the programme has assisted me expand my farm”, “I have been able to acquire fishing net” .

Other responses include:

“I have been able to purchase an Outboard motor with the help of the microfinance programme, “I have been able to purchase industrial equipment”, “I have been able to establish another business, “I have been

able to purchase wiremesh for smoking fish,” “there is a remarkable improvement in my poultry business”.

All the above suggest that Microfinance has had a positive impact on poverty reduction on the beneficiaries. This confirms the research conducted by Morduch and Haley (2001), which concluded that there is extensive evidence that microfinance has a positive impact on the first Millennium Development Goal. Again, according to UNDP report (2010) Ghana is the first country in the sub-Saharan Africa to have achieved the first Millennium Development Goal (MDG1) which also confirms the above.

Other respondents, a very small proportion, though expressed their dissatisfaction, and stated how difficult it had been at times to make the weekly repayments of the loan due to high interest rates and the short term of maturity.

For example, some stated:

“The interest rate is too high, and the repayment period too short.”

Conclusion

It can be inferred from the study that Microfinance can positively impact on poverty if the above recommendations are effectively implemented.

This supports a research conducted by Morduch and Barley (2001) for CIDA that there is ample evidence to support the positive impact of microfinance on poverty reduction as it relates to fully six out of seven of the Millennium Development Goals. In particular, there is overwhelming evidence substantiating a beneficial effect on income smoothing and increases in income.

Recommendations

The micro-credit beneficiaries should be given training in records/book-keeping, marketing, basic planning etc before and after the disbursement of the loan. Again the micro-credit providers should regularly monitor the beneficiaries to ensure that the loans are used correctly and purposely for

the business so as to increase income and minimize default. It is also recommended that critical appraisal or assessment should be conducted so as to know the right amount to be given to each client. Loans should be disbursed at the right time and interest rate should be affordable to aid the beneficiaries avoid loan default. Finally Supervisory and monetary authorities should find an effective way of regulating the microfinance institutions.

Recommendations for future research

The following research areas are therefore recommended for future study.

1. Micro-loan default: Causes and Solutions;
2. Regulation of microfinance institutions: A mechanism for ensuring the effectiveness of microfinance programmes.
3. Sustainability of Microfinance Institutions.

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