THE IMPACT OF MICRO-CREDIT ON POVERTY REDUCTION IN RURAL AREAS- A CASE STUDY OF JAMAN NORTH DISTRICT, GHANA

BY

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ABSTRACT

Poverty reduction has been a major concern for successive governments in Ghana over the years because it is believed to be the universally accepted way of achieving economic growth in the country. This study with the title “the impact of microcredit on poverty reduction: A case study on Jaman North District , was chosen based on the fact that, the District has a lot of microfinance institutions which give credit to the poor. Two different questionnaires were designed for programme beneficiaries and non-programme beneficiaries, and the microfinance institutions and face to face interviews, were the instrument used to collect data. The data was analyzed with tables, percentages and diagrams using Microsoft Excel. First, a multi-stage sampling technique was employed in the selection of the study area while a purposeful or judgmental sampling was used to select the beneficiaries and non beneficiaries for the study. The objectives of the study were to assess whether microfinance has engendered positive or negative outcomes in reducing poverty. The findings from the study were that people, especially vulnerable and marginalized were getting access to credit which impacted positively on the poverty levels of the beneficiaries. In conclusion Most of the rural economic poor tend to look up to Microfinance institutions for credit. Fortunately, these institutions are geared towards the rural poor. It was recommended that, Sustain poverty reduction requires action and policies that will improve both the productive and the human capital of the poor. Policy interventions must be well targeted if the benefits are to reach the poor. Secondly, to meet the needs of the poor, formal institutions should be made to offer small loans that do not require physical collateral.

DECLARATION

I hereby declared thesis is my own work towards the Executive Master of Business Administration. I wish to state that to the best of my knowledge it contains no material preciously published by another person or material which has been accepted for the award of degree of the university, except where due acknowledgment has been made in the text.

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DEDICATION

I dedicate this thesis to God, my Parents Mr. & Mrs. Awuah Mensah, wife and children, siblings and friends who have supported and inspired me throughout this study.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Many people in developing countries neither have their own bank accounts nor are they able to take out loans, transfer money or insure their families against risks such as illness, accident or death. In most cases, access to these financial services that are so central to sustainable development are either denied or made very difficult. Consequently, people frequently have no choice but to resort to local money lenders who charge higher rates of interest or use informal and therefore, insecure ways of performing transactions such as payments and money transfer.

The role of Micro Finance institutions in poverty reduction in developing economies has been increasingly realized over the years. The international year of Micro Credit declared by the United Nations for 2005 emphasized the central role played by a healthy and stable financial sector in reducing poverty in developing countries.

Micro Credit is the lending side of micro finance (Rallens & Ghazenfa, 2005). It includes advancing small loans to the poor people usually without collateral. Micro Finance on the other hand is defined to include the entire spectrum of financial services for broad sectors of the population but particularly for the poor. It refers not only to small and micro loans, but also savings products, insurance, leasing and other money transfer services (Addai J. K, 2010).

Over the past two decades, a considerable amount of multi and bilateral aid has been channeled into micro finance programmes in Ghana with varied degree of success.

Rural and Community Banks operate as quasi commercial banks under the banking Act, 738 of 2007 except that they cannot undertake foreign exchange operations and the minimum capital requirement is lower than that of commercial banks.
The main objectives of Rural and Community Banks are to mobilize savings and provide credit and other banking services to the people within their operational areas especially in rural communities not served by the commercial banks (Addo, 1998).

In trying to achieve these objectives, Rural and Community Banks collaborate with Non –Governmental Organisations (NGO) and the Government to advance credit to the rural poor.

Like all development interventions, stakeholders and interested parties need to evaluate, through impact assessment to ascertain the achievements and failures of the programme. This study therefore seeks to assess the impact of micro credit in the Jaman North District of Brong Ahafo Region against the broad objective of reducing rural poverty.

1.2 Statement of the Problem

Poverty reduction has been a major concern for successive governments in Ghana over the years because it is believed to be the universally accepted way of achieving economic growth in the country. The intended purpose is to raise the living standards of the people and improve upon their quality of life. As a result, different economic policy reforms are pursued to achieve that, but the impact has not been felt by all, especially those in the rural areas. An example is the Economic Recovery Programme (ERP) which aimed at freeing the economy, installing liberalized trade and investment and pursuing export-led economic growth strategy was concentrated in the urban areas. The programme chalked outstanding economic success in the first ten years with all macro-economic indicators showing strong positive growth to a World Bank/International Monitory Fund (IMF) assisted macro-economic framework. However there was the widespread criticism that the positive effect of the programme was not felt by all especially those in rural areas.

Since 1993, the following projects and programmes have been instituted by the Government of Ghana with the primary objective of reducing poverty:

- Agricultural services rehabilitation programme.
- Global 2000.
- The medium Term Agricultural development Programme.
- Primary Health Care and Expanded Programme on Immunization.
- Provision of Potable Water.
- Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD).
- Free, Compulsory Universal Basic Education (FCUBE).
- Government Capitation Grant.
- Government School Feeding Programme.
- Ghana Poverty Reduction Strategy (GPRS) 1 and 2.

Despite these programmes, about 28.5% of Ghanaians still live below the poverty line with household income insufficient for an adequate diet. It is in line with these that the researcher believes that access to credit which is a means of generating opportunities for the poor, can reduce poverty. Therefore if the study is able to prove that rural poverty can be reduced through micro-credits, it will serve as an analytical tool for policy makers in Ghana and direct decision makers when formulating and implementing any poverty concern programme.

A United Nations Development Programme (UNDP) report issued in 2006 indicates that one billion people worldwide live in extreme poverty, earning less than one American dollar per day. A further 1.5 billion are trying to make end meet on less than two dollars per day. Most people in the rural areas still do not have access to food, shelter, good healthcare and education and according to Ghana Statistical Service Survey (2008) 28.5% of Ghanaian population lives below the poverty line. Unfortunately, majority of these people live in the rural areas where about 80% of food crops are produced; yet their incomes are insufficient for adequate diet. This is because the rural poor are mostly small scale entrepreneurs or small scale farmer. It is in the light of this that the study sets out to research into the extent to which micro credit can reduce poverty in the rural areas.

1.3 Research Objectives

The study seeks to:

1. Evaluate the incidence of poverty among beneficiaries and non- beneficiaries of micro credit.

2. Examine how micro credit has contributed positively or otherwise to the standard of living of rural programme beneficiaries.
3. Examine whether micro-credits are tailored to the needs and demand patterns of the borrowers.
4. Compare the number of assets acquired by programme beneficiaries and non-beneficiaries within the last three years.
5. Assess the problems microfinance institutions encounter in recovery of loans granted to micro credit beneficiaries.

1.4 Research Questions

The following are the research questions that the study seeks to find answers to:

1. What is the contribution of microfinance to poverty reduction in Jaman North District?
2. Whether financial services are tailored to the needs and demand patterns of the borrowers in the Jaman North District?
3. What assets have Microfinance programme beneficiaries in the Jaman North District accumulated in the past three years?
4. What strategies does the microfinance institution in the Jaman North District use to recover loans from micro credit beneficiaries?

1.5 Significant of the Study

Poverty reduction and its related issues have been on high priority of the governments in Ghana over the years. In line with this poverty reduction drive this research, if proven that microcredit can reduce poverty, will offer policy makers an opportunity to redesign policies that will use microcredit to reduce the incidence of poverty.

The outcome will also be a guide to non-governmental organizations to prioritize support towards poverty reduction through micro credit.

Other researchers can also use it as reference point in further research in the area of microfinance services.

1.6 The Scope of the Study

The research will cover micro credit programme beneficiaries and non-beneficiaries in the Jaman North District of Brong Ahafo Region where varied micro financing activities are on-going. Programme and non-programme beneficiaries will be interviewed with a help of questionnaire. The questionnaire will center on respondents social and economic activities. A comparison of all the variables under the specific objectives between the two groups will be done to enable the researcher find answers to the research questions posed above.

1.7 Limitation of the Study

One major constraint of the study is the limited time which did not permit the researcher to cover a larger population. Financial constraint was another limiting factor since the researcher had to travel several distances in the district and printing of materials for the research. Also numbers of the respondents were illiterates and therefore questionnaires had to be interpreted to them which caused delays in the administration of the questionnaires.

1.8 Organization of the Study

This study has been organized into five chapters. Chapter one is the introduction. This comprises background to the study, statement of the problem, purpose of the study, significance of the study, limitations of the study, the scope of the study and the organization of the study.

Chapter two deals with the literature review. This consist of characteristics of credit market, review of alternative poverty reduction instruments, experience with other poverty reduction projects, evolution of Micro Finance Institutions (MFIs) and assessment of the performance of MFIs.

The third chapter states the methodology that is used. It comprises of the various stages adopted in the research study. This includes the research design, population, sample and sampling procedures, instruments and data collection procedures and data analysis.

The Fourth chapter contains presentation and discussing of the study's findings, while the last chapter gives a summary of the findings as well as the conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Although there has been some publications and literature on the introduction of microcredit and its impact, there seems to be very little literature on the effects of microcredit. This chapter discusses summaries of recognized authorities and previous researches done on the effects of microcredit .The first part looks at, meaning and scope of microfinance, what is poverty and who constitute the poor, access to credit, evolution of the microfinance institutions in Ghana, microcredit and microfinance, role of microfinance, approaches of poverty studies in Ghana, rural poverty in Ghana. Moreover, the chapter also looks at poverty and microfinance, poverty alleviation and microcredit programmes, how can microcredit reduce poverty and why microfinance projects target women.

2.2 Micro Finance Defined

Microfinance is the supply of loans, savings, money transfers, insurance and other financial services to low-income people. Microfinance institutions (MFIs) which encompass a wide range of providers that vary in legal structure, mission, and methodology-offer these financial services to clients who do not have access to mainstream bank or other formal financial service providers (Adjei,2010).

The new thinking embraces services for women, children, and the poorest of the poor. Steel and (Anda, 2003) define microfinance as small financial transactions with low income household and micro enterprises both urban and rural using nonstandardized methodologies like character based lending, group guarantees and short term repeat loans. Microfinance refers to loans, savings, insurance, transfer services, microcredit loans and other financial products targeted at low-income clients. Microcredit has been changing the lives of people and revitalizing communities worldwide since the beginning of time.

During the 1980s and early 1990s, international attention on microfinance was primarily focused on credit for income- generation activities. It was the belief that if poor people had access to credit it would lead to investment, new stream of income, future investment and more income until borrowers raised themselves above the poverty line, (Adjei, 2010). Micro-credit thus emphasizes the provision of credit services to low-income clients usually in the form of small loans to the poor for income generating activities and consumption purposes.

Micro-credit is the lending side of microfinance (Rallens &Ghazanfar, 2005). It embodies giving small loans to poor people, usually without collateral. Microfinance institutions have stepped in to provide these loans because traditional banks are usually unwilling to serve the market of the poor. The next sub heading assess the genesis of Microfinance Institutions in Ghana.

2.3 Evolution of the Microfinance Institutions in Ghana.

Microfinance activities started as Susu collection in Ghana. The word Susu was coined from Nigerian word esusu meaning small amount of money in naira. In the absence of banking facilities and other formal financial sources, the Susu has been a major source of fund mobilization for the unbanked in Ghana, most especially rural Ghana, (World Bank, 1994). Susu is believed to have contributed largely to micro enterprises and small scale businesses, guaranteeing the depositors of Susu companies' loan and advances for their clients after some period of regular deposits normally six months. Susu has evolved in Ghana some 300 years ago. A major component of finance of urban poor entrepreneurs in Ghana, particularly apprentices and artisans has been the daily or weekly contribution of fixed amounts through Susu. These savings are acceded after a period of time for purchasing tools and equipment necessary for setting various artisans up in their vocational practices. Artisans who normally benefit from these include seamstresses, tailors, hairdressers, fitting mechanics, and carpenters among others. For many petty traders, market women, apprentices and artisans, susu is believed to have been a trusted, reliable and friendlier means of getting started and also for sustenance as well as growth of their businesses. Susu in some cases is believed to be the sole source of getting established for livelihood World Bank, (1994). The financial sector reforms that started in 1987 posed challenges to the role of these poor enterprises as they got integrated into the Financial Sector Adjustment Programme (FINSAP). It was then obvious that while small and medium scale enterprise enjoyed considerable goodwill among informal lenders, the informal market conditions were generally not suited to the type of finance required by a large number of the poor people.

The above combined activities of these micro finance institutions (MFIs) actors did not change the living conditions of the poor. Because of this the government decided to establish the Agricultural Development Bank in 1965 to provide financial assistance to farmers and fishermen. It is interesting to note that at least and to some extent all these rural banks are into micro finance. The Bank of Ghana supervises the activities of these rural banks and some power have now be given to the Association of Rural Banks (ARB) Apex Bank to coordinate the activities of all rural banks and report to the Baking Supervision Department of the BoG. Microfinance has been with Ghanaians for some time now and is therefore not be seen as a new concept in the country. It has always been a common practice for people to save or borrow small loans from individuals, friends and relatives within the context of self-help in order to engage in small retail business or farming ventures (Bank of Ghana, 2007). Researchers use several approaches to study poverty in Ghana. Below the researcher reviews literature on approaches of poverty studies in Ghana.

2.4 What is Poverty and who constitute ''the poor''

The United Nations Development Report of (2000) defines poverty as pronounced deprivation which encompasses a wide range of issues including hunger, lack of shelter and clothing, lack of access to health care and education and inadequate or lack of access to policy making (UNDP, 1999;2001). Being poor connote lack of access to resources necessary for achieving a descent standard of living.

The definition of what is meant by 'poverty', how it might be measured and who constitute 'the poor' are fiercely contested issues. At the heart of the debate about defining poverty stands the question of whether poverty is largely about material needs or whether it is about a much broader set of needs that permit well-being (or at least a reduction in ill-being). The former position concentrates on the measurement of consumption, usually by using income as a surrogate though this approach has been heavily criticized for its reductionism and bias (Chambers, 1995) it has considerable strengths in terms of creating the potential quantitatively and analyze changes in the access to different people to their most pressing material needs.

Despite the criticism (Greeley, 1994) admits that there is broad agreement that income is an adequate measure of welfare.

(Johnson, Susan & Rogaly, 1997) explained that if poverty is understood to be low levels of annual household, reducing poverty is about raising average income levels. If a particular level of annual income per head is used as a poverty line, poverty reduction could be measured by counting the number or proportion of people who cross that line-who are promoted out of poverty. However, giving more attention to annual income can obscure fluctuations in the income during any given year. Poverty can also be understood as vulnerability to downward fluctuations in income.

There is no academic consensus on how to define the different levels of poverty. Definitions for extreme poverty can range from landlessness, to earning less than \$1/day, to existing in the bottom half of those living under the poverty line, to income under a certain threshold. Assumptions are usually made as to the level of poverty addressed by a particular study or Micro Finance Institution (MFI).Usually small loan size is used as an indicator for poverty, the smaller the initial loan, the poorer the client is assumed to be. It is assumed that the 'richer' clients will self-select out of a program that lends only very small amounts.

This assumption that loan size and poverty levels can (to some degree) be equated has not been found to be correct. Clients in the Small Enterprise Foundation (SEF) programme, despite its small loan size, were found to be far less poor than those in the program that Specifically targeted the poorest.SEF has two programmes, the most established of which is the Micro-Credit Programme (MCP). In 1996, SEF introduced a poverty targeted micro-credit programme, the Tshomisano Credit

Programme (TCP) that uses a participatory wealth ranking methodology (PWR) to facilitate targeting. As such, assessing the poverty targeting of SEF offers a unique opportunity to compare the depth of poverty outreach between these two programmes as well as the effectiveness of the two methodologies for identifying the poor. The clients in the poverty-targeted programme are overwhelmingly situated in the poorest category, while the majority of clients in the non poverty targeted scheme are found in the least poor category. The majority of TCP clients (52 %) are located in the poorest category, as opposed to 9% in the least poor category, (Van de Ruit et al., 2001).

Poverty can also be defined as being powerless, vulnerable, isolated, physically and economically weak. According to (Chambers 1983) isolation and exploitative social relations' combine to create alienation among the poor. Limited accesses to training and education result in inadequate social and economic skills and contribute to alienation. This Chambers said, is further compounded where the languages of public administration and commerce which are lien to the poor. Such conditions create a communication gap between the poor and the rest of society. The culmination of this process is the characteristics of low self-esteem or sense of being without identity or lack of confidence that is common among the poor. Another dimension of poverty particularly the rural poor, is alienated from growth processes such as development, adaptation and use of new technology. Evidence of this is provided by the continued high underemployed in the rural areas despite ongoing technological change. This suggests that although improved technology is available, the poor are unable to take advantage of new opportunities.

Poverty is also a state of vulnerability, especially to external shocks and internal social conflicts. The precarious conditions of the poor can quickly result in change in the poverty status of individuals and households at risk. Vulnerability can arise from natural factors such as climatic (e.g. droughts) and environmental change (e.g. desertification); economic changes such as reduced output; social changes, for example, in marital status; and also be vulnerable because of their inferior social status, which expose them to exploitation even by other poor groups. Thus, it is precisely those in society who are least able to deal with risk, namely the poor, who are most exposed to it. Vulnerability also arises from seasonal fluctuations as demonstrated by the fact that there are significant seasonal cycles in occupational activities related. It is important to note that these attributes are, however, not always free standing; they inter-linked, i.e. if one is ‘‘powerless’’, one is vulnerable and consequently physically and economically weak and becomes isolated. These attributes interact with age, ethnicity and socio-economic status to produce highly diverse and complex patterns of poverty in Africa (Adjei, 2010)

In recent years, microfinance institutions designed to serve the poor, such as the Grameen Bank in Bangladesh, have received wide attention, but these institutions depend on subsidies from national governments and international donors. (Zeller & Sharma, 2000) argue that these subsidies represent good investments of public funds on two counts; they enable services to be offered that the marketplace is not willing to provide on its own, and they have been proven to alleviate poverty. Poverty can be reduce when the poor gets access to credit, below is literature review on access to credit.

2.5 Approaches of Poverty Studies in Ghana

Historically, poverty studies in the country have been based on national expenditure surveys with emphasis on the distribution of income and inequality (Assefa, 1980), (Ewusi, 1984). In the 1960s and 1970s the main method was using income to study the material well-being of Ghanaians. This was influenced by the methodology that existed at that time. Since the 1980s, the analyses of poverty have principally focused on consumption using the concept of baskets of consumables (GSS, 2000). Beginning from1987, five living standard surveys have been conducted in the country, with the latest one in 2003. In the 1987/88 survey, the lower and higher poverty lines were set at₵ 99,173 and ₵132,230 respectively and those for 1991/92 and 1998/1999 were pegged at ₵700,000 and ₵900,000 respectively. The main objective of the surveys was to examine the inter-temporal and spatial dimensions of poverty in the country.

The basic needs approach has also been used to assess standard of living of Ghanaians. This approach had the objective of examining the status of people on some indicators such as education, health, housing, access to safe water and electricity. These are generally public goods and address issues associated with community and or social poverty. Though conceptually difficult to measure in monetary terms, the use of this approach helps to identify individuals across the very poor, poor and non-poor. This approach, embedded in the living standard surveys, provide information on the community stock of resources. At the community level, the presence or absence of some of these facilities have implications for the welfare for individuals. For instance, the absence of pipe- borne water in a community will not make it possible for people to use flush toilet. This will then affect quality of life. The quality of life index is used as a proxy for assessing the level of poverty.

Currently most studies adopt the use of human development index (HDI) as a measure of the poverty level. The UNDP surveys at the district levels make use of this approach. This approach in fact may be seen as entailing the first two approaches. An extension is seen in terms of taking care of some qualitative variables that are not captured in the first two approaches. The use of poverty may be considered at two main levels that are at the rural and the urban levels. A separate study of the two is important for two main reasons. For one reason, rural poverty is very different from urban poverty and secondly the approaches for dealing with them might not be the same.

2.6 Rural Poverty in Ghana

Poverty in Ghana is prevalently rural. About seventy per cent of the country's poor people live in rural areas, where the y have limited access to basic social services, safe water, motor able roads, and electricity and telephone services, banking services and other health care facilities. The incidence if poverty is highest in the northern parts of the country. While poverty has a firm grip on the north, there has been a substantial decline in poverty overall. The disparity has widened the income gap between people in the south, where there are two growing seasons, and those in the drought-prone northern plains that have only one growing season within the year.

Poverty is deepest among food crop farmers. Poor food crop farmers are mainly traditional small-scale producers. About six out of ten small-scale farmers are poor and many of them are women. Despite the efforts of the government which works with development partners such as International Fund for Agricultural Development (IFAD) to reduce poverty in the country, small-scale farmers, herders and other rural people in Ghana remain poor.

Women are among the worst affected. More than half of women who are heads of households in rural areas are among the poorest 20 per cent of the population are poorest of the poor.

The poorest areas of Ghana are the savannah regions of the north, where many rural poor people face chronic food insecurity. In the northern part of Ghana, poverty often has a hold on entire rural communities. Livelihoods are more vulnerable in those regions and all members of the community suffer because of food insecurity for part of the year. According to (Ghana Statistical Service, 2000) the three poorest regions are Upper East, Upper West and Northern. In the Upper East region almost nine out of ten people live in poverty. More than eight out of ten people in the Upper West region are poor. In the northern region, poverty affects seven out of ten people and slightly less than half the population of the Central region is poor. Throughout Ghana, rural people cope with poverty in various ways, finding individual solutions to the problem. Men take off-farm employment, women carry on small-scale trading, and families reduce cash spending, which may mean taking children out of school.

Among the causes of rural poverty, according to the government's poverty reduction strategy paper are, low productivity and poorly functioning markets for agricultural outputs. Small-scale farmers rely on rudimentary methods and technology and they lack the skills and input s such as fertilizer and improved seeds that would increase yields. Because of erosion and shorter fallow periods, soil loses its fertility, posing a long-term threat to farmers' livelihoods and incomes. Increasing population pressure leads to continuous cultivation in the densely inhabited Upper East region and a shorter fallow period in the Upper West region, causing further deterioration of the land.

2.7 Urban Poverty

Poverty is not limited to the rural settings alone. In most countries including Ghana there is urban poverty. Towns and villages around the cities are characterized by high levels of poverty. In the city of Accra, people sleep in kiosks, roadsides, lorry stations, petrol stations, and many other unsecured places. The level of slums in the cities really indicates that there is urban poverty. Migration from the villages to the cities in search of jobs has caused congestion in the cities. Many people in the cities live on less than one or two dollars a day because they do not have jobs. Public places of convenience are congested. Even though it is clear that urban dwellers have advantage as compared to their counterparts in the rural settings, it is also obvious that some rural dwellers are better off than their counterparts in the cities. Poverty therefore is not only a rural phenomenon but also observable in the urban settings (Peprah, 2009). Since poverty can be found in both the rural areas and the urban areas, who therefore is the ‘‘poor’’.

2.8 Access to Credit

Access to financial services can help promote equity and can in this context, be linked to better economic equilibrium and to faster economic growth. Research has centered on the impact of access to credit on micro-economic development, suggesting that improving the access of micro-enterprises to financial services could have an important positive impact on a country's income distribution (Westley, 2010). Surveys of the literature on financial intermediation and poverty reduction conclude that development of the financial sector contributes to economic growth and thereby to poverty alleviation (Holden &Prokopenko, 2001). A World Bank research looking at cross-cutting evidence substantiates the hypothesis that ''countries with better-developed financial intermediaries experience faster declines in measures of both poverty and income inequality'' (Beck Demiguc-Kunt, & Levine, 2004).

A number of recent studies have looked at the positive results stemming from access to a broad range of financial services and payment system services (Christen, 2000); (Wenner & Campos, 1998). Reports from the development banking community and studies of international NGOs (Dichter, 1997), strongly suggest that lower income families need a wide range of complementary financial services both for everyday life and for asset building purposes (Caskey, 2001); (Robinson, 2001); (Rutherford, 1999).

In many developing countries, poor rural households face severe constraints when they seek credit from formal lending institutions. Formal financial services such as those offered by banks are often not available to those below the poverty line because of restrictions requiring that loans be beaked by collateral. Nor do banks welcome the small amounts the poor want to save. As a result, the poor usually turn first to informal sources such as friends, relatives, or moneylenders, who loan small amounts for short periods, or to informal, indigenous institutions such as savings clubs and lending networks to borrow enough to purchase food and other basic necessities. These informal networks are frequently successful in tiding the poor over difficult times such as a bad harvest, and they enable poor households to build up savings for investments that can help lift them out of poverty (Adjei, 2010). The poor gets credit through Microcredit and Microfinance products. Below, the researcher reviews literature on microcredit and microfinance.

2.9 Microcredit and Microfinance.

Even though microcredit and microfinance have been used interchangeably, the two terms differ. These two terms do not have the same meaning. Microcredit is small credit basically providing small amount of money to the poor to better their lives. Usually microcredit may range from ten Ghana Cedis up to about one thousand Ghana Cedis. Alternatively, in the case of rural agricultural farmers, the credit may be in the form of input supply.

Microfinance as explained above is broader than microcredit. In fact microfinance encompasses a wide range of financial and non-financial services that are offered to the poor. Microfinance institutions offer variety of services including credit, savings, insurance, leasing and money transfer. The size of microfinance credit is extremely larger than that of microcredit.

2.9.1 Microfinance and Poverty Alleviation

The world is being caught in the poverty web. Poverty continues to be a major problem facing both advanced and less-advanced countries. The main objective of microfinance is to reduce poverty. In doing this microfinance provides the opportunity for clients to create wealth. Targeting women in the society who constitute the majority of the poor, microfinance helps to reduce poverty by creating wealth which leads to an increase in the levels of incomes of the vulnerable. Savings services leads to capital accumulation for investment in the short and long terms. With high levels of income women are empowered. They are to cater for themselves and children, make decisions that affect their household, educate their children and engage in income generating activities. To what extent does rural financial services contribute to the poverty reduction largely depends on access to these services by the poor. Not only this but also it depends on promising investment opportunities and on capacity of the poor to tap into these investment opportunities. Especially if in the rural areas investment opportunities are not expanding simultaneously with rural financial services, not much can be achieved (Robbinson, 2002).

In Bangladesh, where about one third of the world's estimated 30- 40 million micro borrowers reside, the growth has come from specialized microfinance NGO's and Grameen Bank. What began with a few small grants and loans from international donors has now provided over 100 million dollars in loans. The most distinctive feature of the credit delivery system is the absence of middle men between the credit supplier and end user. The bank's cumulative recovery rate is an astounding 98 percent.

Grameen Bank has its own special legal structure, and does not fall under regulatory oversight of the central bank. The bank also aims to raise health and environmental consciousness. Each of its members must plant at least one sapling a year as part of forestation programme. Grameen is perhaps the only bank in the world that encourages birth control, sanitation and a clean environment as part of its lending policy (Yunus, 2001)

In Bolivia the microfinance revolution emerged in the 1990's. Large-scale commercial credit if provided there by BancoSol, a privately owned bank for micro-entrepreneurs and by a number of competitors following hotly on BancoSol's heels (and profits). By 1997 BancoSol, financed by a combination of domestic and international commercial debt and investment and locally mobilized voluntary savings, provided loans profitably to more than one quarter of Bolivia's clients (Robbinson, 2002). The Wall Street Journal (15 July, 1997) notes, ''the real measure of its success is that BancoSol has spawned a slew of competitions''.

In India, despite the large size and depth of its financial system, the majority of the rural poor do not have access to formal finance and financial services. For this reason, innovative microfinance initiatives pioneered by nongovernmental organizations strove to create links between commercial banks, NGOs, and informal local groups to create the ''SHG Bank Linkage'' (Development gateway, 2004). India's approach to microfinance making it profitable and so widely available helped the country reduce the incidence of poverty from about 40 percent of the population in the mid-1970's to about 11 percent in 1996 (Robinson, 2002). Members of SHG recognize that ‘‘several challenges lie ahead,’’ but still believe it has ‘‘the right ingredients to be scaled-up into offering mass access to finance for the rural poor while improving sustainability’’ (World Bank, 2003).

The World Development Report for 1990 (World Bank, 1990) found that poverty can be reduced most effectively by a strategy with two equally important elements. The first element is to promote the productive use of the most abundant asset of the poor, labour. Broad- based economic growth through appropriate macroeconomic and microeconomic policies is critical in this respect. There is also an important role for policies targeted at promoting infrastructure development and encouraging income generation activities for the poor. The second element is to provide basic social services to the poor. The World Bank found that primary health care, family planning, nutrition and primary education are especially important in this regard.

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In most developing countries, including Ghana, opportunities for wage employment in the formal sector of the economy are extremely limited, and the vast majority of the poor rely on self-employment for their livelihood. Better access to financial services enables the poor to establish and expand micro-enterprises and thereby improve their income levels and create employment. Even in middle income countries such as Botswana and Egypt, where opportunities for wage employment are greater, many poor households rely on self-employment in micro-enterprises for their livelihood (Peprah, 2009).

Prudent policies drawn up to encourage the development of an effective microfinance sector can also reinforce other poverty reduction agenda and vice versa. Many microfinance institutions, including Sinapi Aba Trust, Opportunity International Savings and Loans Company Ltd and HFC Boafo Microfinance Services Ltd, encourage their clients to develop a socio-economic agenda covering matters such as health, nutrition and education of children. Even where this emphasis is not explicit, increased empowerment and higher income for clients as a result of their participation in microfinance programmes will propel them to adopt other socio-economic agenda. At the same time, microfinance institutions are likely to be more effective in raising the incomes of beneficiaries in the case where rapid growth in the economy and in agricultural output and better infrastructure create demand for the products and services provided by micro-entrepreneurs. Microfinance programmes will also be more effective where the provision of non-financial services such as education and training enable clients to use their loans more productively (Peprah, 2009)

2.10 Poverty Alleviation and Microcredit Programs

Providing the poor with access to financial services is one of many ways to help increase their incomes and productivity. In many countries, however, traditional financial institutions have failed to provide this service (Braverman & Guasch 1986). Microcredit and cooperative programs have been developed to fill this gap. Their purpose is to help the poor become self-employed and thus escape poverty. Many of these programs provide credit using social mechanisms, such as group based lending, to reach the poor and other clients, including women, who lack access to formal financial institutions (Huppi & Feder, 1990). With increasing assistance from the World Bank and other donors, microfinance is emerging as an instrument for reducing poverty and improving the poor's access to financial services in low-income countries (World Bank, 1990). The question now is how can microcredit reduce poverty?

2.11 How Can Microcredit Reduce Poverty?

The appropriateness of microcredit as a tool for reducing poverty depends on local circumstances. Poverty is often the result of low economic growth, high population growth, and extremely unequal distribution of resources. The closer determinants of poverty are unemployment and the low productivity of the poor. When poverty results from unemployment, reducing poverty requires creating jobs; when poverty results from low productivity and low income, reducing poverty requires investing in human and physical capital to increase workers' productivity. In many countries, such as Bangladesh, poverty is caused by lack of both physical and human capital. Consequently, the best way to reduce poverty is to deal with both problems: increasing productivity by creating employment and developing human capital. One way to increase the productivity of the poor is through broad based economic growth. Such growth ensures more inclusive participation in development by providing widespread employment opportunities. Agricultural development provides opportunities for broad-based economic growth. But substantial job expansion within agriculture may not be feasible, since agriculture already provides more than 70 percent of employment in many low-income countries. If rural poverty is the result of seasonal agricultural unemployment, employment schemes can smooth consumption by the poor (Ravallion, 1991). If unemployment is chronic rather than seasonal; however, sustainable employment generation is needed. Lack of savings and capital make it difficult for many poor people who want jobs in the farm and nonfarm sectors to become self-employed and to undertake productive employment generating activities. Providing credit seems to be away to generate self-employment opportunities for the poor. But because the poor lack physical collateral, they have almost no access to institutional credit. Informal lenders play an important role in many low-income countries (Adams & Fitchett, 1992); (Ghate, 1992), but they often charge high interest rates, inhibiting poor rural households from investing in productive income-increasing activities. Moreover, although informal groups, such as rotating savings and credit associations, can meet the occasional financial needs of rural households in many societies, they are not reliable sources of finance for income-generating activities (Webster & Fidler 1995). Microcredit programs are able to reach the poor at affordable cost and can thus help the poor become self-employed.

However, views differ on the role of microfinance and microcredit programs. Detractors view such programs as a social liability, consuming scarce resources without significantly affecting long-term outcomes. Critics argue that the small enterprises supported by microcredit programs have limited growth potential and so have no sustained impact on the poor. Instead, they contend, these programs make the poor economically dependent on the program itself (Bouman & Hospes, 1994). Microcredit programs also depend on donors, as they are often highly subsidized (Adams & von Pischke, 1992). Thus even if microcredit programs are able to reach the poor, they may not be cost-effective and hence worth supporting as a resource transfer mechanism

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter looks at the methodology adopted in carrying out the study, namely the study design, study population; sampling procedure, source of data, instruments and the data process and analysis. A brief profile of the Jaman North District and its population is also provided in this chapter to serve as background to the study.

3.1 Research Approach

The Case Study design was adopted in the study. This is because this method is mostly used for intensive study of individual units. By adopting this method, a single entity or phenomenon is explored, bounded by time and activity (Shrestha, 2003). Since multiple sources of evidence is required for the study, case study approach appeared more appropriate to address the objectives set.

3.2 Study Population

The population of the study consisted of the staff and the clients of the microfinance institutions in the district, both micro credit programme beneficiaries and non-beneficiaries.

3.3 Source of data

The study used both primary and secondary data. Primary data was gathered through field's survey to gather information from micro credit programme beneficiaries and non- beneficiaries and some staff in the selected financial institutions in the District. This was done through the administration of questionnaires and interviews.

Secondary data on poverty and the selected Micro- Finance Institutions is also gathered for the purpose of the study. Among these were books, research literatures, articles, journals, and thesis. Web pages of some prominent organizations like Grameen Bank, Google, Index mundi, Bank of Ghana were also used as sources of secondary data.

3.4 Instruments

Taking the study objectives and components into consideration, primary and secondary data are collected for analysis. In gathering the primary data, face to face interview under the guidance of structured and unstructured questionnaires is employed to collect data from micro-finance programme beneficiaries of selected Microfinance Institutions and Non-beneficiaries as well as some selected staff of the microcredit units of the institutions.

Secondary data on poverty and the selected Micro-Finance Institutions is also gathered for the purpose of the study.

3.5 Sample and Sampling Procedures

It would have been extremely difficult if not impossible to cover all micro finance institutions programme areas, beneficiaries of micro credit programmes and non-beneficiaries in Ghana. As a result, a combination of both probability and non-probability sampling techniques was used. First, a multi-stage sampling technique was employed in the selection of the study area while a purposeful or judgmental sampling was used to select the beneficiaries, non beneficiaries and employees for the study.

A multi-stage sampling technique was adopted because it has advantage of enabling the selection of two or more geographical areas for study, increasing sampling precision, ensuring that essential areas are represented and lastly guaranteeing that all areas in the populations are adequately represented in a sample.

A purposive sampling technique was used when selecting the two groups while a simple random sampling was used to select the programme beneficiaries.

Simple random sampling is a sample drawn from the population (without replacement) in such a way that every item in the population has the same probability of being included in the sample. This is because the lists of beneficiaries were easily obtainable from microfinance institutions.

Random sampling method was used to sample the views of non beneficiary respondents who were ready and prepared to answer the questionnaire.

A sample size of one hundred and sixty seven was targeted out of a sampling frame of five hundred and fifty five beneficiaries. Out of the population 30% beneficiaries were randomly selected from each institution for the study. Sixty 60 non beneficiaries were also randomly selected from the non beneficiary group for the purpose of the study. Purposeful sampling was used to select three employees from each of the MFI microcredit unit for the study. To this end the Credit manager, Credit assistant and recovery officer were selected. The total sample size used for the research was 242 comprising of beneficiaries (167), non beneficiaries (60) and MFI respondents (15).

Table 19: Sample distribution

Category of Financial Institution	**Populations of Beneficiaries**	**Beneficiaries**	**Non Beneficiaries**	**MFI Employees**
Nafana Rural Bank	149	45	--	3
Suma Rural Bank	117	35	--	3
Hidden-Talent Micro-finance	86	26	--	3
Nimdee Hyiren Finance Investment	78	23	--	3
Ghana Commercial Bank	125	38	--	3
Total	**555**	**167**	**60**	**15**

3.6 Data processing and analysis

The questionnaires were pre-coded before administration to facilitate easy tabulation and analysis .Responses were crossed checked on the field to ensure quality of the data. Microsoft excel was used to display and analyze the data. Figures, frequencies, percentages and tables were used to make the necessary comparisons of the existing data.

3.7 Profile of the study area.

3.7.1 Brief Background of Jaman North District.

Jaman North District is one of the nineteen administrative districts in the Brong Ahafo Region of Ghana with a total surface area of 62 square kilometres and 104 settlements most of which are rural. It is located between latitudes 7° 45'' N and 8° 05'' N and longitudes 2° 60.

It is bounded on the South, by Jaman South district, Tain district to the Northeast , La Cote D' ivoire in the West. Jaman North is located approximately 117 kilometres north west of the regional capital Sunyani. The district is above sea level and lies in the equatorial double rainfall region with an average rainfall of 203cm. The raining seasons are March to July and September through November.

On account of the various environmentally unfriendly activities of humankind, the Vegetation, which was originally rainforest, is gradually turning into savannah grassland in some parts of the district. The estimated population based on the 2000 census with a growth rate of 3.3% is approximately 75,220.

3.7.2 Economy

Jaman North economy is characteristic of a rural economy with agriculture being the mainstay of the people. The sector employs 57.8 per cent of the working population with commerce/service and industry employing 37.6 per cent and 4.6 per cent respectively. Table 3 shows the occupational distribution in the district.

Table 20: Occupational distributions in Jaman North district

Occupation	Percentage of population
Agriculture	57.8%
Commerce/service	37.6%
Industry	4.6%
Total	100%

Source :(Jaman North District Assembly, 2007)

The dominant economic activity in the Jaman North district is agriculture. It employs about 58 percent of the working population. It constitutes the major source of household income in the district. Despite the fact that majority of the working population are engaged in the agriculture sector, most of them are peasant or subsistent farmers who produce to feed their families and sell some amounts of their output to purchase non-food household items. Its total area is 1,635km^2, constituting about 0.7 percent of the entire land of Ghana, which is 62km^2. The district's close proximity to Ghana's neighboring country, Cote d' Ivoire, is another remarkable feature which promotes economic and commercial activities between the district and Cote d' Ivoire. Jaman North District lies in the semi-equatorial climate zone, which occurs widely in the tropics. Abundant sunshine and rainfall yields a warm and humid weather. Basically, the semi-deciduous forest is the dominant vegetation type, occupying about 80 per cent of the entire middle stretch of the land, with isolated patches of wooded savanna in the northern and eastern corners of the district.

3.7.3 Climate and Vegetation

The rainfall is the double maxima type with mean annual rainfall ranging between 1200mm-1780mm (50''-60'') in May and June, the first rainy season; with the heaviest rainfall recorded in June. This is followed by a second rainfall season between September and October. A four month dry season runs from December to March. During these periods, trees shed their leaves and appear brown. Cold and dry conditions brought about by the oppressive Hammattan winds from the north are also experienced during this period.

3.7.4 Ethnicity.

The Bonos form the majority of the population in the District constituting about 52% of the entire district population. The other ethnic group that can be found in the district is the Nafana. This ethnic group forms about 38% of the entire population. The other 10% is made up of other tribes who migrated from other parts of the country and settled there purposely for farming and trading.

3.7.5 Gender Distribution

In terms of gender distribution, the population of females was 51.4% while males constituted 48.6% as at 2000. Thus the district has a sex ratio of 94.4 males to 100 females (approximately 1:1). About 40.4 percent of the population is in youthful age group (0-14 years) as compared to 6.8 percent of those aged 65 and above. The population within the labour force age bracket (15-64), which is economically active population, constitutes 62.8 per cent. The overall age dependency ratio in the district on the averages is 1:0:89. This implies that every economically active population has less than a person to cater for in the district. However, it must be noted that some people in the economically active population are unemployed, under employed, students and housewives; hence the dependency ratio may be higher in actual fact.

3.7.8 Literacy Rate

The literacy rate in the District is averagely 54.8%. In terms of sex, literacy among males on the average is 64.6% while that of the females is 45.2%.Jaman North District is blessed with numerous educational institutions ranging from basic to second cycle schools.

3.7.9 Health Services

The District has only one District Government Hospital at Sampa and 6 Government clinics at Goka, Kokoa, Mayera, Asuokor, Asiri and Seketia, one private community Hospital at Suma-Ahenkro and one private clinic at Sampa. The few health facilities are concentrated in the urban centers at the expense of the rural areas. There is only one medical doctor and 12 nurses serving the whole district. The doctor patient ratio is 1:75,220 and the nurse patient ratio is 1:6268. Based on these conditions about 50% of our patients are being referred to other hospital with its associated risk and high cost.

Table 21: Financial institutions in the District

NAME	TYPE	OWNERSHIP	LOCATION
NAFANA RURAL BANK	RURAL BANK	NAFANA COMMUNITY	SAMPA
SUMA RURAL BANK	RURAL BANK	SUMA COMMUNITY	SUMA-AHENKRO
HIDEN-TALENT MICRO-FINANCE	MICRO-FINANCE	PRIVATE	SAMPA
NIMDEE HYIREN FINANCE INVESTMENT	MICRO-FINANCE	PRIVATE	SAMPA
GHANA CEMMERCIAL BANK	COMMERCIAL BANK	GOVERNMENT	SAMPA

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter presents the result of the study. Tables are used to help in the analysis. Socio- demographic data of respondents were taken to assist in the analysis of the result.

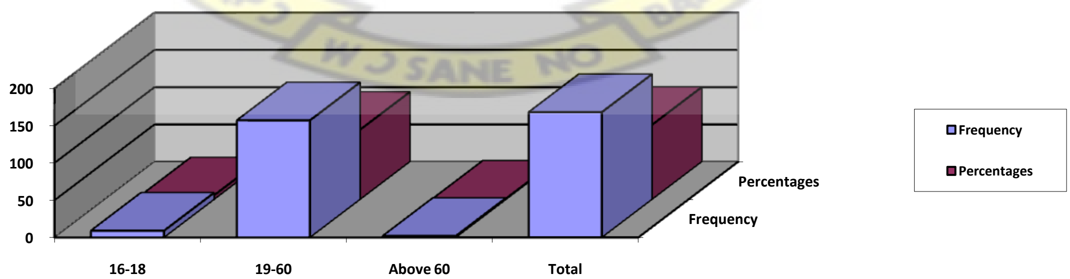
4.1 Socio-Demographic Characteristics of Respondents

The tables below presents the Socio-demographic characteristics of the sampled population, in the form of age, gender, marital status, educational status and religion.

Table 22: Age Distribution of Beneficiary Respondents

Age Distribution	Frequency	Percentages
16-18	9	5.6
19-60	157	93.5
Above 60	2	1.2
Total	167	100

Figure 12: Age Distribution of Respondents



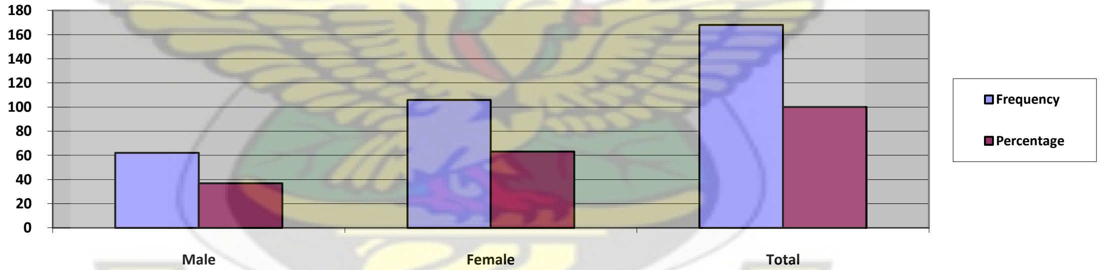
Source: Field Work 2011

With respect to age, 5.4 percent were between the ages of 12-18, 93.5% were between the ages of 19 to 60 which formed the largest group. This also shows that the beneficiaries of microcredit are people who are above 18 years and 1.2% represented the aged, those above 60 years.

Table 23 : Gender of Beneficiary Respondents

Gender	Frequency	Percentage
Male	62	36.9
Female	105	63.1
Total	167	100

Figure 13: Gender of Respondents



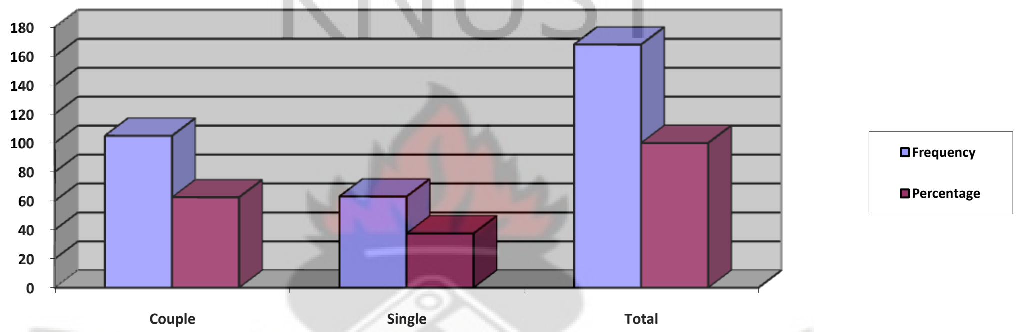
Source: Field Work, April 2011

Table 6 and figure shows the gender distribution of Microcredit beneficiary respondents. 36.9% were male whiles 63.1% representing the larger group were females.

Table 24: Marital Status of Beneficiary Respondents

Marital Status	Frequency	Percentage
Couple	104	62.3
Single	63	37.7
Total	167	100

Figure 14: Marital Status



Source: Field Work, April 2011

In respect of marital status of beneficiary respondents 62.3% were married as against 37.7% who were single.

Table 25: Educational Background of beneficiary respondents

Level of Education	Frequency	Percent
No Formal Education	9	5.4
Primary/Middle Level	29	17.3
Secondary/J.S.S	111	66.7
Tertiary	10	6.0
Others	8	4.8
Total	167	100.0

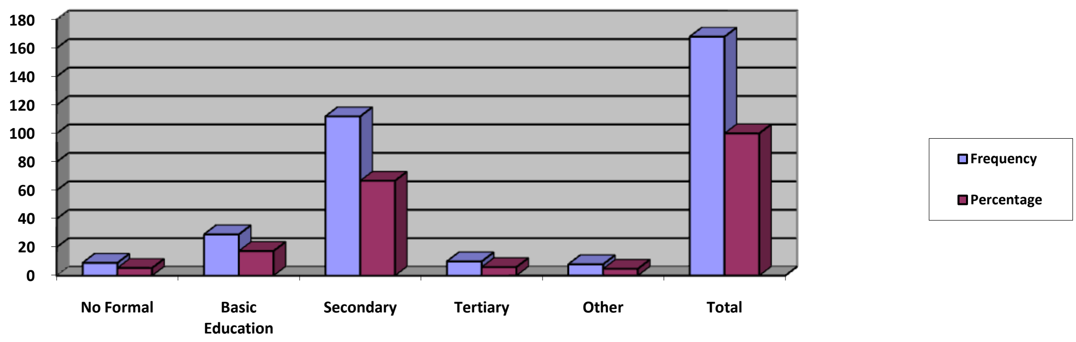


Figure 15: Educational Level of Respondent**:**

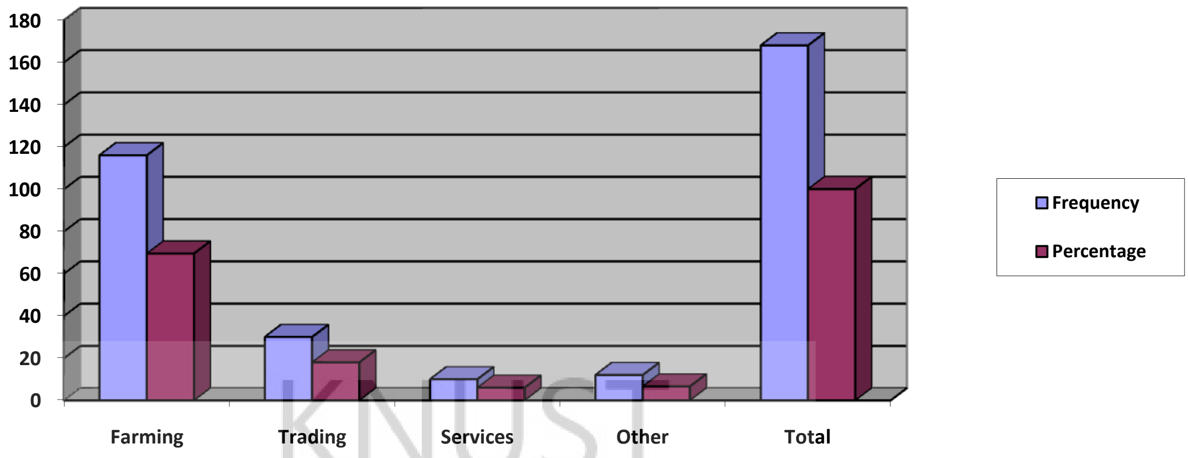
Source: Field Work, April 2011

With regards to educational background as shown in table 8 figures 4, 5.4% had no formal education, 17.3% had up to primary level, and 66.3 % forming the larger group had up to JSS/Secondary, 6.0 % had up to tertiary level. The others at least tasted education but could not tell the level they got to forming 4.8 percent.

Table 26: Occupation of beneficiary respondents

Occupation	Frequency	Percent
Farming	30	18.5
Trading	116	69.5
Services	10	6.0
Others	11	6.6
Total	167	100.0

Figure 16: Occupation of beneficiary Respondents



Source: Field Work April 2011

Also for occupation, 18.5% were farmers, trading forming the largest group of 69.5%, service 6% and other occupation forming 6.6%.

4.2 The contribution of microcredit to poverty reduction

Table 10, figure 6 below clearly show that as much as 95.9% of microcredit beneficiaries agree that micro credit has helped reduce their level of poverty and only 4.1% said that microcredit has not improved their poverty levels. The research gave a positive answer to the question of whether micro credit can reduce rural poverty. It also proves that the rural poor with access to credit can acquire some assets and this will go a long way to reduce poverty.

Table 27: Access to Micro-Credit on the level of poverty among Beneficiaries

Response	Frequency	Percent
Yes	160	95.9
No	7	4.1
Total	**167**	**100**

Figure 17: Access to Micro-Credit on Poverty Levels

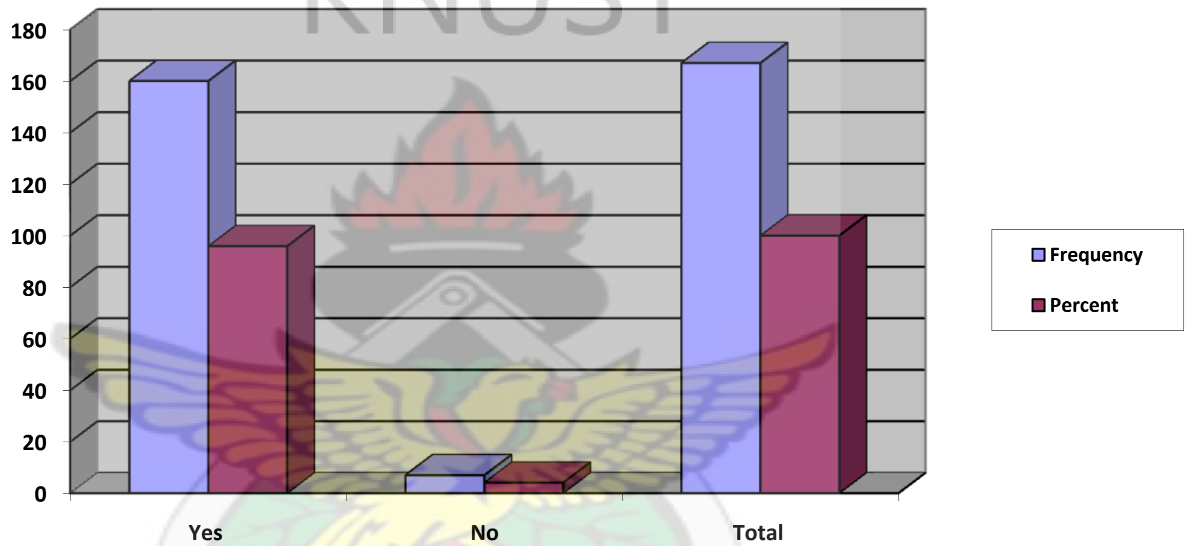
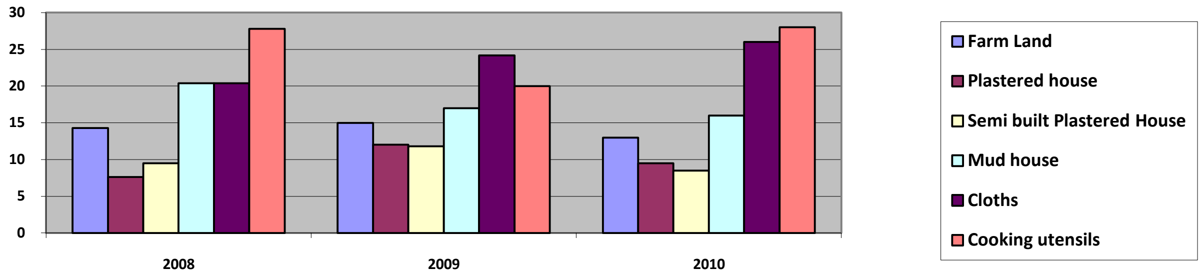


Table 28: Assets owned by programme beneficiaries

Assets	% of beneficiaries who owned various assets in 2008	% of beneficiaries who owned various assets in 2009	% of beneficiaries who owned various assets in 2010
Farm Land	14.3	15	13
Plastered house	7.6	12	9.5
Semi built Plastered House	9.5	11.8	8.5
Mud house	20.4	17	16
Cloths	20.4	24.2	26
Cooking utensils	27.8	20	28

Figure 18: Asset owned by Beneficiaries

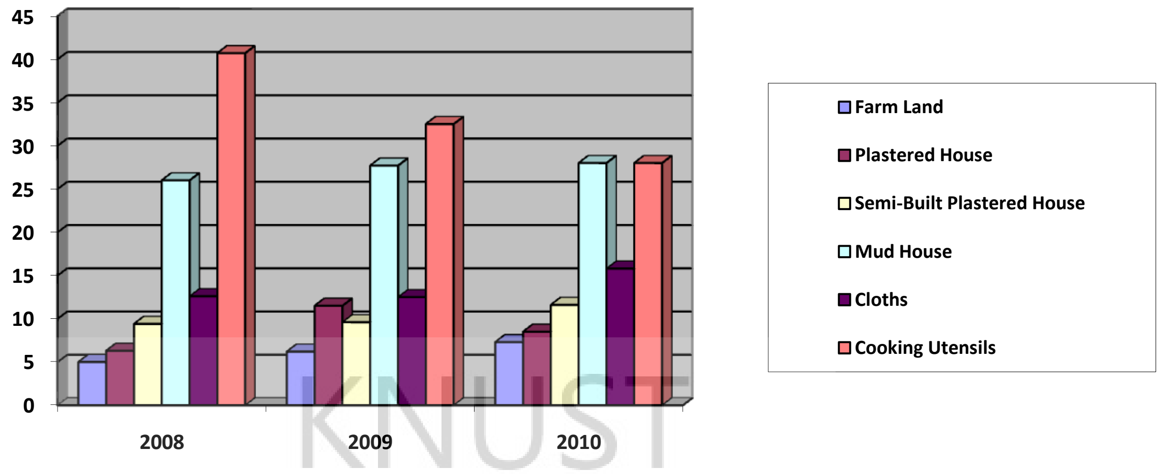


Source: Field Work, April 2011

Table 29: Assets owned by non-programme beneficiaries

Assets	%of non-programme beneficiaries who owned various assets in 2008.	% of non-programme beneficiaries who owned various assets in 2009.	% of non-programme beneficiaries who owned various assets in 2010.
Farm Land	5.0	6.2	7.3
Plastered House	6.3	11.5	8.5
Semi-Built Plastered House	9.4	9.6	11.6
Mud House	26.0	27.7	28
Cloths	12.6	12.5	15.8
Cooking Utensils	40.7	32.5	28

Figure 19: Assets owned by non-programme beneficiaries



Source: Field Work, April 2011.

4.3 Assets Owned by Respondents

Table 11 figure 6 and table 12 figure 7 above show acquisition of assets by respondents for the last three years. Data on assets show that programme beneficiaries added to their assets on yearly basis and that clothes and cooking utensils are the most acquired assets as shown above. For the three years that the study cover farm land owned by respondents who were microcredit programme beneficiaries were 14.3%, 15% and 13% for 2008, 2009 and 2010 respectively as against non-beneficiary respondents who owned 5%, 6.2% and 7% for the same period. It also shows that while significant percentages of some of the beneficiaries were able to build mud house, others are able to acquired semi-built houses. On the contrary, from table 12 figure7 for non-beneficiaries, cooking utensils are the most significant items they are able to acquire. Even though they owned houses, most of their houses are made up of mud houses. Comparatively beneficiary respondents who owned plastered houses over the three year period exceeded non beneficiaries who owned plastered house.

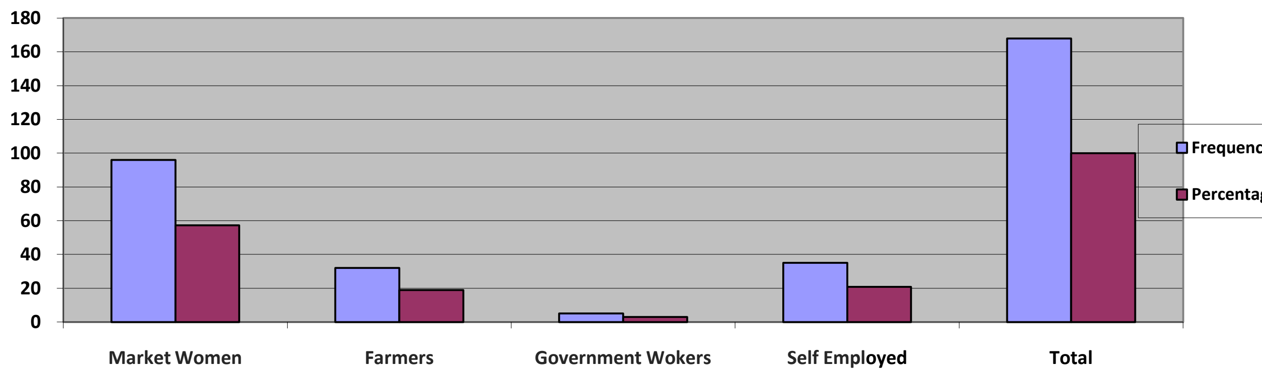
4.4 Categories of Microcredit Beneficiary

Over the years and before the introduction of Microfinance in Ghana, access to credit was very difficult. However, Microfinance in the country has come to reduce such difficulties. The table below shows the categories of people who benefited from Microcredit.

Table 30: Categories of Microcredit Beneficiaries by Profession

Categories of Microfinance Beneficiary	Frequency	Percent
Market Woman	96	57.1
Farmers	32	19.0
Government workers	5	3.0
Self Employed	35	20.8
Total	167	100.0

Figure 20: Categories of MFI Credit Beneficiaries



Source: Field Work, April 2011

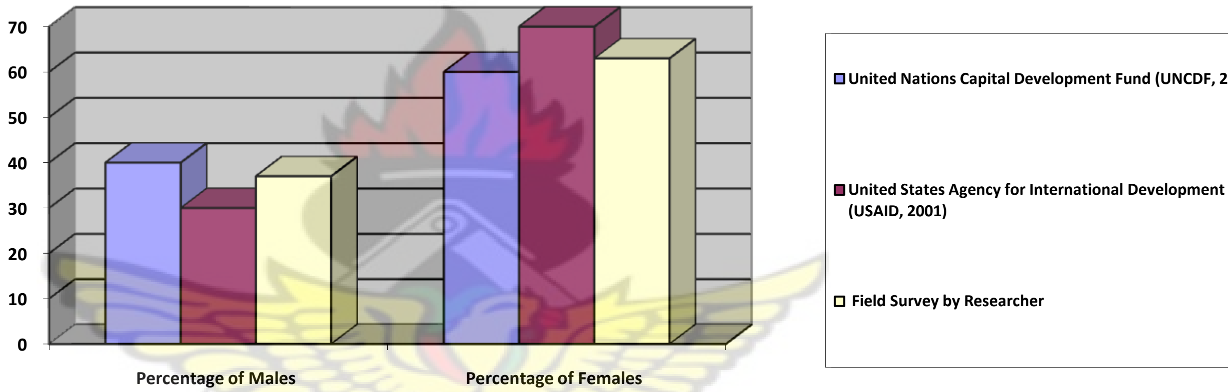
From the above table it could be seen that market women benefited most from Microcredit, representing 57.1% followed by farmers with 19.0%. This confirms the study in Grameen Bank (bank of the poor) in the country of Bangladesh in. The bank was established with the practice of making small loans to the poor predominantly women to help them to obtain economic self sufficiency since they are generally considered to be at the lowest rung of the poverty ladder worldwide (www.grameen-ifo.org/).

It also confirms 2001 survey by the Special Unit on Microfinance of the United Nations Capital Development Fund (UNCDF) of 29 microfinance institutions which revealed that approximately 60 percent of these institutions' clients were women. Six of the 29 focused entirely on women. The research gave a positive answer to the question why Micro credit target women.

Table 31: Gender Distribution of Microcredit Beneficiaries

Research organization	Percentage of Males	Percentage of Females
United Nations Capital Development Fund (UNCDF, 2000)	40	60
United States Agency for International Development (USAID, 2001)	30	70
Field Survey by Researcher	37	63

Figure 21: Gender Distribution of Microcredit Beneficiaries



Lending to women has become an important principle in microcredit, with banks and NGO's such as BancoSol, WWB, and Pro Mujer catering for women exclusively. Though Grameen Bank initially tried to lend to both men and women at equal rates, women presently make up ninety-five percent of the bank's clients. Women continue to make up seventy-five percent of all microcredit recipients worldwide.

4.4.0 Financial Services tailored to the demand patterns of the borrowers

Table 32: Is credit easily available

Response	**Frequency**	**Percent**
Yes	82	49
No	85	51
Total	**167**	**100**

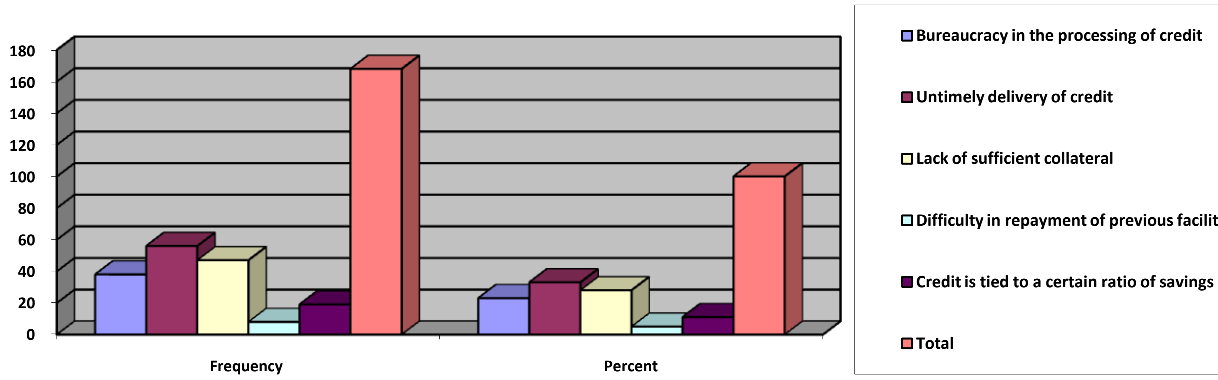
Source: field work, April 2011

Respondents were asked as to whether credit is easily available to them from their respective financial institutions. 49% responded yes whiles 51% responded no. A number of reasons were given by the respondents in respect of their no answers.

Table 33: Reasons for the difficulty in accessing credit

Reasons	**Frequency**	**Percent**
Bureaucracy in the processing of credit	38	23
Untimely delivery of credit	55	33
Lack of sufficient collateral	47	28
Difficulty in repayment of previous facility	8	5
Credit is tied to a certain ratio of savings	19	11
Total	**167**	**100**

Figure 22: Reasons for the difficulty in accessing credit



Source: field work, April 2011

Out of the 167 respondents, 5 representing 33% had difficulty in accessing loan due to untimely delivery of credit, 28% for lack of sufficient collateral whiles 23 had difficulty as a result of bureaucracy in the process of loan acquisition.11% were of the view that their loan request are tied up to their savings. Only 5% had difficulty in accessing credit because of their difficulty in repayment of their previous facility.

Table 34: Average period for the disbursement of credit by MFIs Staff

Responses	From Beneficiaries	From MFIs
Less than 2 weeks	1	7
2-3 weeks	8	55
4-6 weeks	3	18
Above 6 weeks	3	20
Total	**15**	**100**

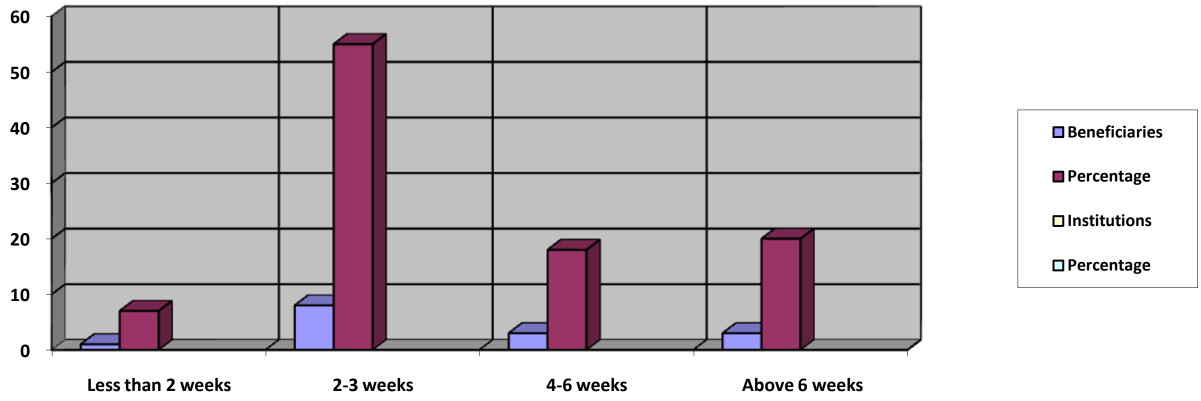


Figure 11: Average period for the disbursement of credit by MFIs Staff

Source: Field work, April 2011

An interview conducted by the researcher on 15 microfinance officials who work at the credit units of the various institutions mentioned varied periods with regard to average period the institutions use to process and disburse credit to applicants. 7% responded that it takes less than 2 weeks to process loans while 55% responded that their institution spend from 2-3 weeks to process them. 18% and 20% of respondents stated that their institutions uses 4-6 weeks and above 6 weeks respectively to process loans.

The question of whether financial services are tailored to the demand patterns of the borrowers. Different Microfinance institutions have different credit policies.

Table 35: Causes for the delay in processing clients loan request

Reason	Frequency	Percent
Bureaucracy in the process of loan acquisition	3	20
Inability of clients to complete loan application form on time	1	7
Insufficient funds for on-lending	6	30
Inability to fulfill collateral requirement	2	13
High primary and secondary reserve requirement set by Bank of Ghana	3	20
Total	**15**	**100**

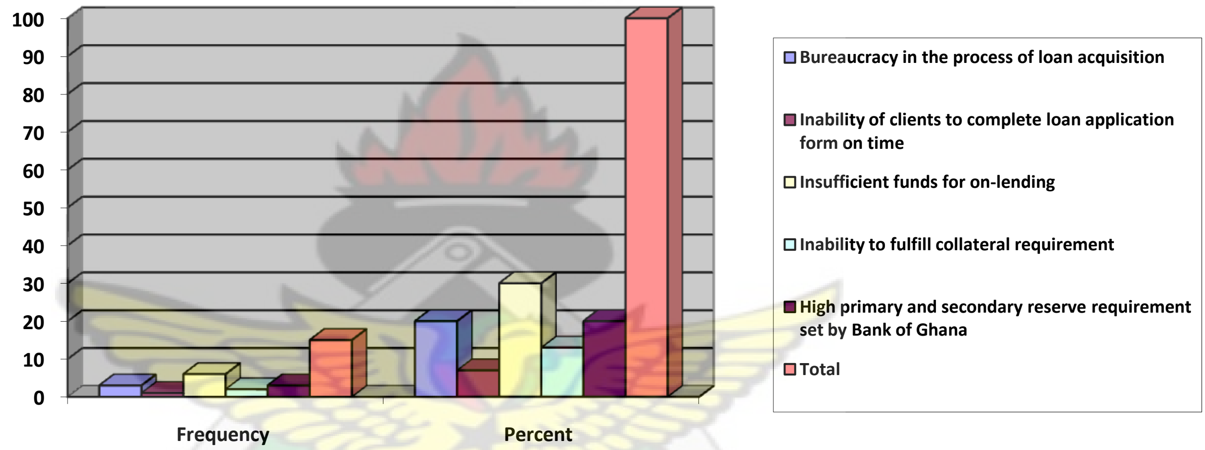


Figure 12: Causes for the delay in processing clients' loan request

Source: Field Interview, April 2011

Table 18 and figure 12 above indicate that out of the 15 Microfinance officials who responded to the interview 20% were of the view that delay in processing clients loan request was as a result of bureaucratic nature of loan acquisition. 7% stated that loans are delayed because of inability of applicants to provide enough collateral whiles 30% stated that institution does not have adequate funding for on-lending to their clients. 7% indicated that the delay is as a result of the inability of applicants to complete loan application form on time and another 20% responded that the Bank of Ghana statutory requirement for both primary and secondary requirement reduces the banks' ability to lend more.

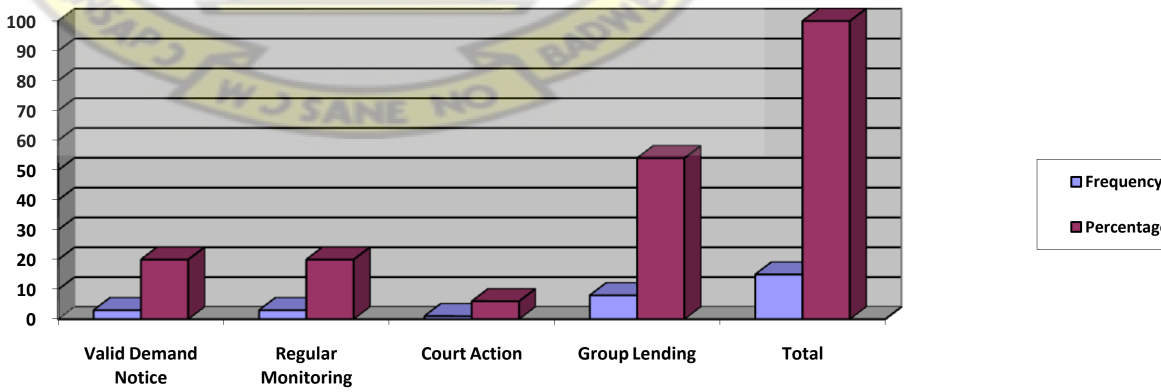
4.5 The strategies the banks use to recover loans

The Micro Credit institutions which were interviewed used some strategies to recover the loans from the Micro Credit beneficiaries. The table below shows the various strategies.

Table 36: Loan Recovery Strategies

Strategy	Frequency	Percentage
Demand Notice	3	20
Regular Monitoring	3	20
Court Action	1	6
Group Lending	8	54
Total	15	100

Figure 13: Recovery Strategies by MFIs



Source: Field Work, April 2011

Face to face interview by the researcher in the Microfinance institutions showed that the major problem was loan recovery from the Microfinance clients. In trying to overcome this challenge almost all the Microfinance institution have employ various strategies to recover their loans from Microcredit clients. From table 19 and figure 13, the strategies the banks use most is group lending representing 57.1% this is because group members are held severally responsible for repayment of group loans, meaning this is easy for the group to pay the loan than the individual clients. This is follow by regular monitoring representing 20.8%. Demand notices and court action representing 19.0% and 3.0 % respectively. This also revealed that the microcredit institutions do not normally use court action because according to them it scares prospective clients to access credit. Though group-lending has long been a key part of microcredit, microcredit initially began with the principle of lending to individuals. Despite the use of solidarity circles in 1970s Jobra, Grameen Bank and other early microcredit institutions initially focused on individual lending. Indeed, Muhammad Yunus propagated the notion that every person has the potential to become an entrepreneur. The use of group-lending was motivated by economies of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Many times the loan of one participant in group-lending depends upon the successful repayment of another member, thus transferring repayment responsibility off from microcredit institutions to loan recipients. This answer the question what strategies the microfinance institutions use to recover loans from Micro credit beneficiaries.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter is divided into three parts. The first part looks at the findings followed by recommendations; summary of the study, the third part presents some solutions to the issues raised in the study in the form of recommendations.

5.1. Summary of Major Findings

The study was conducted by collecting information from selected Microfinance Institutions in the Jaman North District, their nature, characteristics and methods of credit delivery adopted to reduce rural poverty. Face to face interviews technique alongside structured questionnaires was employed to gather information from the selected Microfinance Institutions, programme beneficiaries and non-beneficiaries. The mode made the researcher achieved a favorable response rate of 95.6%.

Findings from the nature, characteristics and methods of credit delivery by the selected microfinance institutions show the following; that

1. The survey data and analysis show positive changes in the in the assets acquired by most programme beneficiaries in relation to non beneficiaries. They are able to afford enamel cooking utensils, clothing and many more assets than the non-beneficiaries. Some are able to renovate their houses from mud buildings to sand crate blocks while some also acquired more land for

farming and other agricultural activities. This clearly shows that access to microcredit lead to poverty reduction. This again confirmed what (Robbinson, 2002) said that microcredit helps to reduce poverty by creating wealth which leads to an increase in the levels of incomes of the vulnerable. This answers the research question on whether microcredit can reduce rural poverty.

2. Also the most targeted clientele of most of MFIs are women. Exclusive lending to women began in the 1980s when Grameen Bank found that women have higher repayment rates, and tend to accept smaller loans than men. Subsequently, many microcredit institutions have used the goal of empowering women to justify their disproportionate loans to women. Microcredit is a tool for socioeconomic development. It also proves that the rural poor with little effort can assess credit. This answers the question why microcredit target women. It does because women are the most venerable in our society and for that matter if the women get access to credit through Microcredit poverty is going to reduce.
3. Another major finding of the study is the applicants have difficulty in accessing credit from the MFI. Majority of respondents (55%) indicated that their difficulty is as a result of untimely delivery of credit followed by lack of collateral (47%) on the part of applicants. The MFIs responds also confirmed these difficulties but gave different reasons. To the MFIs lack of sufficient funds (30%) for on-lending, high primary and secondary reserve requirement (which turns to reduce on-lending funds) were the major causes (20%).

However, both beneficiary respondents and MFI officials agreed that bureaucracy in the process of loan acquisition was a challenge.

4. On whether microcredit can help reduce poverty, the result clearly shows that there is positive correlation between credit acquisition and poverty reduction.
5. Data on assets show that programme beneficiaries added to their assets on yearly basis for the three year period. There is therefore positive correlation between credit and assets acquisition. For the three years that the study covers farm land and houses which are major measure of wealth in the community are significantly owned by microcredit beneficiaries as compared to non beneficiaries. On the contrary, for non-beneficiaries, cooking utensils are the most significant items they are able to acquire. Even though they owned houses, most of their houses are made up of mud houses.
6. It was found that group lending is a major strategy the MFIs use to ensure higher repayment rate and therefore reduce default. The use of group-lending was motivated by economies of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Many times the loan of one participant in group-lending depends upon the successful repayment of another member, thus transferring repayment responsibility off from microcredit institutions to loan recipients. This answer the question what strategies the microfinance institutions use to recover loans from Micro credit beneficiaries.

It was also learnt that the group lending leads to solidarity amongst groups by building strong cohesion amongst the group members and has given many of the beneficiaries some social status in their communities.

5.2 Recommendations

Sustain poverty reduction requires action and policies that will improve both the productive and the human capital of the poor. Policy interventions must be well targeted if the benefits are to reach the poor. To achieve this, group-based lending which minimizes problem of repayment must be adopted by both formal and informal lending institutions.

Secondly, to meet the needs of the poor, formal institutions should be made to offer small loans that do not require physical collateral.

Thirdly, there is the need to have a strong collaboration between the government of Ghana and the Microfinance institutions to reduce poverty in rural areas. Micro-credits to the rural people promote rural development and therefore, there is the need for the government to support the activities of Microfinance institutions through supply of funds for on-lending to the poor. In this direction the Bank of Ghana should abolish the secondary reserve requirements of banks (especially rural banks) to enable them channel those fund to the rural poor to reduce the incidence of poverty.

Planning to reach large numbers of the ultra poor with microfinance alone may not be a realistic objective. Special programs may be needed to provide the ultra poor with a range of services, covering training, health provision, and more general social development for the disadvantaged, as well as grants of assets or credits. Well-established institutions in Jaman North such as the Nafana Rural Bank have begun these types of social programs in collaboration with Community Based Rural Development Programme (CBRDP). The programme has a grant component as well as credit and skill training.

Furthermore, Microfinance institutions need to build the staff technical and skill capacity in microfinance through systematic training. In this regard, a training program may be developed that would enhance staff capacity in designing, implementing, monitoring and evaluating microfinance projects. This will enable MFIs to tailor microcredit to meet the needs and demand patterns of applicants and ensure satisfaction of beneficiaries. Microfinance should also reduce the collateral requirement of applicants to enable them get access to credit on time for production. This can still be done through lending to groups.

Finally, a lot of Microfinance institutions must be encouraged to advance credit to the rural poor because the researcher believes that this will foster linkages in rural industries and promote rural economic growth.

It is further recommended that an area of Government policy that can help to rapidly reduce poverty to the barest minimum can be researched into since most of the microfinance institutions covered in this study have profit motives and therefore have limitation to give some of the services needed by the ultra poor (for example grants) to enable them graduate from their present level of poverty.

5.3 Conclusion

Literature on poverty state that the incidence of poverty in Ghana is overwhelmingly rural. The study also confirms that a significant proportion of the rural poor live in remote areas where access to public development is rear. Most of the rural economic poor tend to look up to Microfinance institutions for credit. Fortunately, these institutions are geared towards the rural poor. They usually adopt group-based lending which puts less pressure on both lender and the receiver and has a high repayment rate. Also providing credit to a small group with strong cohesion among members foster high repayment rates.

Access to Micro credit by the rural poor, be it through direct lending or inventory credit, increases agricultural productivity in rural areas and enhances food security. It facilitates access to health centers, developed community leadership, and promotes positive perception of beneficiaries in terms of their social standing in their communities.

Despite the different methods of credit delivery by Microfinance institutions, the study has shown that they all aim at reducing poverty. The direct access to credit is the ideal active stake in organizing and developing themselves. It also encourages mobilization of local resources such as land, labour, and assets faster.

Again direct access to credit helps build the capacity of local institutions to effectively plan and implement projects. It promotes greater self-reliance and increases community control over resources and development while enhancing the sense of individual ownership. It can be said that the study has diffused the common myth that the poor are not credit worthy, that women represent greater risks than men.

Finally, the poor best understood poverty and therefore, it is the poor who can escape from poverty. What then can motivate the poor to improve their own condition depends on the appreciation for the opportunities opened to them like access to Micro credits.

It can be concluded that to assist the poor will only be as good as it is perceived when credit is taken into consideration. Thus, no matter how much is being invested in a school or a health post if the poor has no money, access to these facilities will be a problem and the investment will be for naught. Thus, for poverty reduction strategies to be effective and sustainable, they must reflect a systematic change in the living standard of the poor.

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APPENDICES

Appendix "1" Questionnaire for Individual.

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(IDL)

(COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION)

CEMBA

QUESTIONNAIRE FOR INDIVIDUAL

This questionnaire aims at eliciting your views about the effects of Micro-finance in reducing poverty a case study in Jaman North District. This is purely an academic exercise and in partial fulfillment of the requirement for the award of Executive Masters in Business administration by Kwame Nkrumah University of Science and Technology.

Please read each statement carefully and answer them as frankly as you can. Your responses will be accorded the utmost confidentiality they need. Your maximum cooperation is highly solicited.

Please tick where appropriate and supply information where necessary.

1. [ ] Programme Beneficiary

   [ ] Non- Beneficiary

2. Age

   [ ] 12-18 years

   [ ] 19-70 years

   [ ] 71 and above

3. Gender

[ ] Male

[ ] Female

4. Marital Status

[ ] Married

[ ] Single

5. Educational Background

[ ] No Formal Education

[ ] Primary/Middle Level

[ ] Secondary/ J.S.S

[ ] Tertiary

[ ] Others (please specify)…………………………………………………

6. How many people depend on you for their daily bread? (No. of dependants)

[ ] 0-4 [ ] 5- 9

[ ] 10- 14 [ ] 15 and above

7. What do you do for a living?

[ ] Farming [ ] Trading

[ ] Teaching [ ] Others specify

8. Have you ever benefited from Micro-Credit?

[ ] Yes

[ ] No

9. How much do you earn per mouth? GH¢

[ ] GH¢ 50- GH¢ 100

[ ] GH¢ 110- GH¢ 160

[ ] GH¢ 170- GH¢ 220

[ ] GH¢ 230- GH¢ 280

[ ] GH¢ 290- GH¢ 340

[ ] GH¢ 350 and above

10. Which of the following is your source of credit?

[ ] Direct lending

[ ] Inventory credit

11. Please indicate the easiness in dealing with your source of credit

[ ] Very easy

[ ] Easy

[ ] Less easy

[ ] Not easy

12. What is the purpose of your credit?

[ ] Acquire farm land

[ ] Acquire house

[ ] Acquire car

[ ] Acquire farm inputs

[ ] Pay wages of labourers

[ ] Others please specify…………………………………………..

13. How do you repay the credit given?

[ ] Weekly

[ ] Monthly

[ ] Half yearly

[ ] Yearly

14. Do you have problems in paying your loans?

[ ] Yes

[ ] No

15. If your response is yes in item 12, why?

[ ] Insufficient funding for project

[ ] Delay in disbursement of credit request

[ ] Diversion of funds from its intended purpose

[ ] Weather failure

[ ] Poor market for produce

[ ] Natural/Accidental disaster

16. Has access to credit been beneficial?

[ ] Yes

[ ] No

17. Is credit easily available to you?

[ ] Yes

[ ] No

18. If no to the above question why is credit not easily available?

[ ] Bureaucratic processing procedure

[ ] Inability to meet collateral security

[ ] Untimely delivery of credit

[ ] Difficulty in repayment of previous facility

19. Do you usually receive exactly the amount you request for?

[ ] Yes

[ ] No

20. If no, why are your request reduced?

[ ] Credit amount is tied to a certain percentage my savings

[ ] Insufficient collateral

[ ] Difficulty in repayment of previous loan

21. Has access to microcredit improved your poverty level

[ ] Yes

[ ] No

Appendix “2”

Questionnaire for Micro Finance Institutions

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
(IDL)
(COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION)
CEMBA

QUESTIONNAIRE FOR MICRO FINANCE INSTITUTIONS

This questionnaire aims at eliciting your views about the effects of Micro-finance in reducing poverty a case study in Jaman North District. This is purely an academic exercise and in partial fulfillment of the requirement for the award of Executive Masters in Business administration by Kwame Nkrumah University of Science and Technology.

Please read each statement carefully and answer them as frankly as you can. Your responses will be accorded the utmost confidentiality they need. Your maximum cooperation is highly solicited.

Please tick where appropriate and supply information where necessary.

1. Name of Institution……………………………………………
2. Type of institution
    [ ] Rural Bank
    [ ] Local NGO
    [ ] Financial Company
    [ ] Saving & Loans
    [ ] Credit Union
3. Does your institution give credit to the productive poor?

[ ] Yes

[ ] No

4. If ‘‘Yes’’ in the item (3), how many clients does the institution presently have

   [ ] 1-20

   [ ] 21-31

   [ ] 32-42

   [ ] 43-53

   [ ] 54-64

   [ ] 65 and above

5. Who are the main beneficiaries?

   [ ] Market Woman

   [ ] Farmers

   [ ] Government workers

   [ ] Self employed

6. Does your institution take collateral before given out loans to clients?

   [ ] Yes

   [ ] No

7. If ‘‘Yes’’ in item (6) what did you use as loan collateral

   [ ] Land

   [ ] House

   [ ] Car

   [ ] Cashew farm/Cocoa farm

   [ ] Others

8. On the average, how long does it take your institution to disburse credit?

[ ] Less than 2 weeks

[ ] 2-3 weeks

[ ] 4- 5 weeks

[ ] More than 6 weeks

9. Does the time taken to process loans meet the time frame of the clients?

[ ] Yes

[ ] No

10. If no in the item (9) what are the causes if such delays?

[ ] Bureaucracy in the process of loan acquisition

[ ] Inability of clients to complete loan application form on time

[ ] Insufficient funds for on-lending

[ ] Inability to fulfill collateral requirement

[ ] High primary and secondary reserve requirement set by Bank of Ghana

11. Does the clients repay their loans in time?

[ ] Yes

[ ] No

12. If ‘‘No’’ in item (10) why?

[ ] High interest rate on the loans

[ ] Clients do not use the loan on its intended purpose

[ ] Natural disaster or accident

13. In your opinion how do your beneficiaries assess your Institution?

[ ] Very good

[ ] Good

[ ] Satisfactory