

**THE EFFECTS OF MICROFINANCE ON POVERTY REDUCTION:**

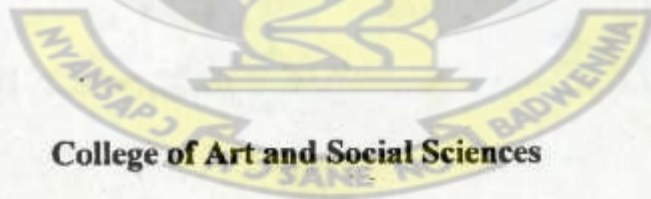
**A CASE OF DUNKWA CENTRAL MARKET WOMEN**

**BY**

**KNUST**

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**A Thesis submitted to the SCHOOL OF BUSINESS ,  
in partial fulfilment of the requirements for the award of  
MASTER OF BUSINESS ADMINISTRATION**



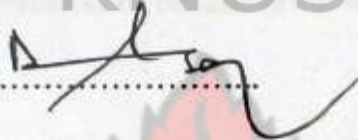
**College of Art and Social Sciences**

**April 2008**

## DECLARATION

I hereby declare that this submission is my own work towards the MBA (Banking and Finance) and that , to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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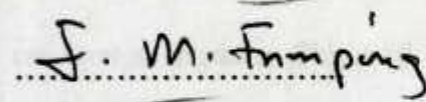
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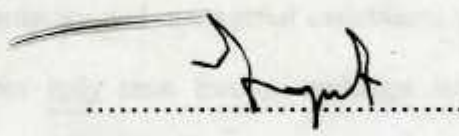
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## ABSTRACT

The concept of micro-finance has emerged as a potential solution to the financial insecurity of the economically disadvantaged since the early 1970s. Microfinance Institutions have made the provision of sustainable livelihoods to local communities a major activity. One of the mechanisms is through the distribution of micro-credit. Therefore, it is important to determine the impact of micro-credit on the livelihood of beneficiaries in the local communities and make suggestion to improve the scheme.

The objective of this study was to evaluate Micro financing as an instrument for poverty reduction market women at the Dunkwa central market. This study has been conducted to evaluate the actual contributions of micro finance institutions to the Dunkwa Central Market women in order to improve the livelihoods of the inhabitants of the area.

Micro-finance gives poor households the ability to manage household emergencies, build assets and reduces their vulnerability to crises. A sample size of 50 respondent traders were selected from the market, considering the various types of wares the dealt in on the market.

The study focused on the market women in the study area. Enhancing the poverty alleviation potential of small firms through financial, regulatory and managerial assistances will eventually reduce dependency on foreign markets. This will not only save foreign exchange but also reduce the impact, which fluctuations of foreign exchange receipts will have domestically.

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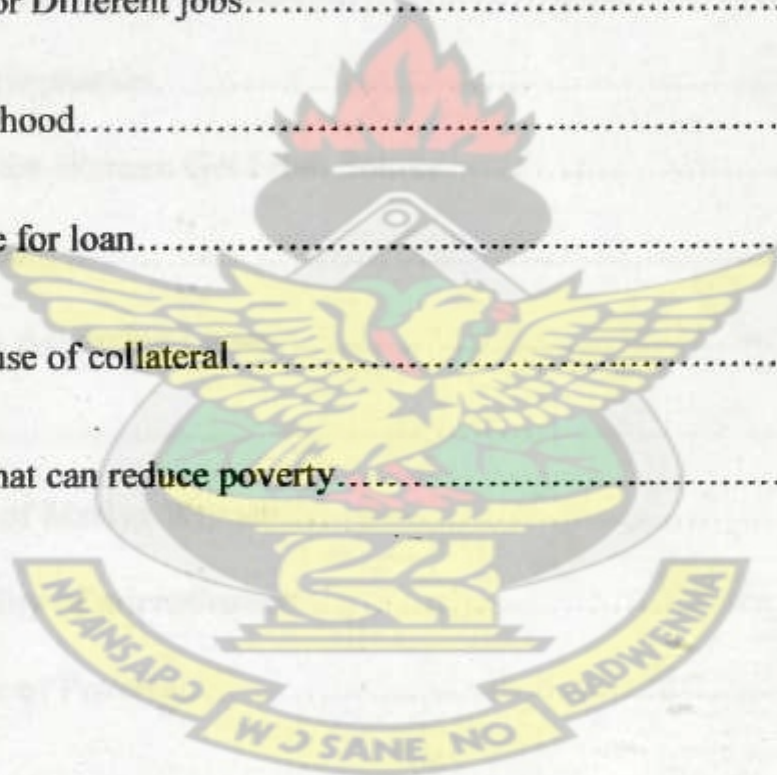
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Thank You.

# CHAPTER ONE

## INTRODUCTION

### 1.0 BACKGROUND

The concept of micro-finance has emerged as a potential solution to the financial insecurity of the economically disadvantaged since the early 1970s. Stemming from the successes of the Grameen Bank in Bangladesh, a new form of financial services came into existence that is targeted towards low resource individuals, households and enterprises. Micro-finance is seen as important for the promotion of community development and poverty alleviation goals through provision of financial services. Micro-finance institutions (MFIs) take a step away from charity and holds people liable for their actions. To attain a greater impact and to guarantee its sustainability and success in the field, MFI loans need to be supplemented by appropriate mechanisms to provide the basic social services, especially the development of education and health care, which are needed to improve the quality of life of these people.

According to a living standard survey conducted by the Ghana Statistical Service in 1999, five out of ten regions in Ghana had more than 40% of their population living in poverty. The worst affected being the three northern savannah regions (the Upper East, Upper



West and Northern Regions). Nine out of ten people in the Upper East; eight out of ten in Upper West; seven out of ten in Northern; and five out of ten in Central and Eastern Regions were classified as poor in 1999.

Food crop farmers in the country have the highest incidence of poverty. They constitute 59% of the poor in Ghana. This has been due to several factors, including the lack of access to markets, high cost of inputs and low levels of infrastructure.

Finance is the oil for growth. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. It is the system of institutions and operations that canalises the financial resources into productive use. In most developing countries, the economies are characterized by dual systems running parallel – monetized and non-monetized; formal and informal systems. On the one hand is the money economy where transactions predominantly take place with money as a medium of exchange and on the other is the non-monetized rudimentary economy where the subsistence economy and barter dominate. The other kind of dualism refers to the formal financial system with the banks and other formal financial intermediaries as distinct from the informal system made up mostly of various shades of rotating credit systems and moneylenders. The poor usually operate in the non-monetized system and/or the informal financial system.

One of the micro-finance services is micro-credit, a system of providing small loans to those who are excluded from normal banking institutions and is seen by many as one way

to help the poor increase their income and productivity. In recognition to this concept, the United Nations adopted Resolution 53/197 in which it proclaimed 2005 as the International Year of Micro Credit and requested that the observance of the year be a special occasion for giving impetus to micro-credit programs throughout the world. In micro-crediting, small sums of money are given to individuals, households or entrepreneurs with the responsibility of returning this money in addition to interest.

Also in Ghana many governmental and non-governmental organizations use micro-credit in an attempt to reduce poverty. For the sustainability of the credit facilities and the livelihood of its beneficiaries, a reliable impact assessment can give both donor and practitioners the facts to show that their interventions have a positive effect and that the financial support is justified. The measurement of impact is essential for any poverty-based program in order to increase understanding of the factors that lead to improvement or decline in a member's livelihood. Therefore, it is important to determine the impact of micro-credit on the livelihood of beneficiaries in the local communities and make suggestion to improve the scheme.

### 1.1 PROBLEM STATEMENT

Various developmental approaches have been devised by policymakers, international development agencies and non-governmental organisations aimed at poverty reduction in developing countries in the past two decades (Afrane, 2002). These approaches are to reduce poverty and hunger, eliminate HIV/AIDS and other infectious diseases,



empowering women and improving their health, educating all children and lowering child mortality (Littlefield et al, 2003).

Research has shown that to be able to meet this specific goal and the others, other contextual factors must be met (Littlefield et al, 2003). These factors include a functioning government, physical security, economic growth and basic infrastructure including provision of financial resources to ensure sustainable livelihood for especially the disadvantaged poor such as local communities. In response to this, many Microfinance Institutions have made the provision of sustainable livelihoods to local communities a major activity. One of the mechanisms is through the distribution of micro-credit.

There is therefore the need to periodically investigate the impacts such mechanisms and schemes have on the economy, thus, if such institutions are making the desired impacts expected. It is in the light of this that, this study has been conducted.

## 1.2 OBJECTIVES

The objective of this study was to evaluate Micro financing as an instrument for poverty reduction market women at the Dunkwa central market. The specific objectives were to:

- a. Identify various Microfinance Institutions accessible to the market women
- b. Determine the effectiveness and efficiency of the Microfinance Institutions in improving livelihoods

- c. Determine the outreach and accessibility of Microfinance Institutions and
- d. Determine strategies to help improve the Microfinance Institutions in enhancing sustainable livelihood.

### 1.3 JUSTIFICATION OF THE STUDY

The business environment in Ghana has been expected to change quite significantly following the proclamation of a “Golden Age of Business” by the New Patriotic Party government soon after its election in 2000.

This came after several years of economic reform, which later adopted a slogan declaring the private sector to be “the engine of growth”. Indeed considerable interest is shown by policy makers in making all types of private sector activity central to the economic development process.

The study discusses the influence that Microfinance institutions have had on the performance of SMEs in the market, thereby evaluating its impact on poverty. The study also addresses the microfinance environment in the central market as well as identifies how their activities improves on the livelihood of the beneficiaries and the financing choices made by firms affect their performance.

It is under this premise therefore that this study has been conducted to evaluate the actual contributions of micro finance institutions to the Dunkwa Central Market women in order to improve the livelihoods of the inhabitants of the area.



#### 1.4 RESEARCH QUESTIONS

In this research the primary research question will be:

- How can Microfinance Institutions be organized to contribute to poverty reduction among Dunkwa central market women?

To answer this primary research question, the following secondary research questions need to be answered:

- What are the various Microfinance Institutions available to Dunkwa central market women?
- Are the identified Microfinance Institutions organized to be effective and efficient in poverty reduction?
- If not, how could it be organized to make the Microfinance Institutions more effective and efficient?
- Is the outreach and accessibility of the selected Microfinance Institutions adequate for poverty reduction?
- If not, how can the Microfinance Institutions be organized to enhance its outreach and accessibility?
- What are their overall impacts to poverty reduction in the market?

#### 1.5 RESEARCH HYPOTHESIS

In order to have guidance for the research, the following hypotheses were developed from the research topic;

Ho: The availability of Microfinance credit facilities leads to the improvement in the poverty situation among the Dunkwa market women.

H1: The availability of Microfinance credit facilities does not lead to the improvement in the poverty situation among the Dunkwa market women.

## 1.6 SCOPE OF STUDY

The study is set to cover market women in the Dunkwa Central Market. In this, a careful sample will be selected representing all the groups on the market as well as beneficiaries of microfinance support and some selected market group leaders will be contacted and data solicited from them. This is because there is a wide range of market women and the time frame and the resources available will not support the use of the entire population.

## 1.7 LIMITATIONS OF THE STUDY

A research conducted in such unfavourable economic climate cannot be devoid of limitations. Although the researcher adopted many ways to go around the constraints that arose in the study, some of the major limitations are worth acknowledging.

The first major limitation encountered was sponsorship. A research of such nature needed an extensive amount of funds so as to widen the coverage to strengthen the predictability of the research for the socio-economic development of the country. The researcher had to contend with his limited personal financial resources to finance the research.



Secondly, there was a major problem with the availability of time to collect data. This was because, the researcher attended lectures, with its accompanying assignments, presentations and semester exams, which took most of the researcher's time leaving little or inadequate time for the research.

Finally, the accessibility of respondent and the collection of data was a difficult task, which also took most of the inadequate time of the project. Some respondents were not ready to either give information or release information collected relating to the research.

## **1.8 ORAGINIZATION OF THE STUDY**

The study will be organized into five chapters. The first chapter will be the introductory chapter which will include; the background of the study, the problem statement, the objectives, the research questions, justification of the study, stated hypothesis, profile of the study area and limitations of the study. The second chapter, titled literature review will involve the scrutiny of researches and literature around the subject matter to present a complimentary background of studies in the subject matter.

The third chapter which is the methodology chapter will look at methods used in selecting the sample, how data is going to be collected and how it was analysed. The chapter four will involve the data presentation, its analysis and discussions based on the stated methods in the chapter three. The final chapter will be chapter five; will present conclusions of the study and recommendations on the subject matter and that for further studies.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 INTRODUCTION

Large sums of public and private money continue to be invested in improving access to, and the quality of personal financial services. Most of this investment is profit-oriented, but many investors are also motivated by social goals. For example, the Consultative Group to Assist the Poorest (the apex association of international donors who support microfinance) regards microfinance as “a powerful tool to fight poverty” that can help poor people to “raise income, build their assets and cushion themselves against external shocks.” (CGAP, 2004a:1).

Microfinance is defined here in relation to its users - rather than in relation to other forms of finance - as the supply of savings, credit, insurance and payment services to relatively poor people. These services are not only provided by specialized microfinance institutions (MFIs) that belong to the “new world” of micro-enterprise finance (Otero & Rhyne, 1995). A diverse group of state sponsored and cooperative institutions (particularly postal banks) also serve many poor clients (CGAP, 2004b). “Downscaling” commercial financial institutions also serve growing numbers (the Economist, 2005). In the other direction, many “upscaling” MFIs have transformed into regulated financial



institutions and/or secured better access to commercial as well as donor finance, particularly in Latin America (Drake & Rhyne, 2002).

**2.1 THE ECONOMY**

Ghana has seen its first half century as an independent nation in 2007. The early promise of democracy combined with economic and social development that hailed the new era in 1957 led to disappointments in the first three decades. While democracy has now been restored, with the peaceful transfer of one civilian administration to another in 2000, and while there has been some recovery from the earlier economic collapse, the challenge of economic and social transformation looms large.

Indeed, the last two decades have seen steady and significant economic growth in spite of considerable instability in macroeconomic performance and a growing dependence on aid and other foreign inflows. An average of 4.9% GDP growth and a per capita GDP growth of about 2.9% have been recorded for the best part of that period. While the growth performance may not be exceptional this has been significantly above average by African standards. In their study of the “Drivers of Change” in Ghana, Booth et al (2004) identify economic liberalisation in the 1980s and political liberalisation in the 1990s as the key factors behind the fairly decent growth performance. It is important to observe that since 2001, the macroeconomic policy situation has improved considerably, and the environment is less subject to policy reversals and deviations from agreed policies but the relationship between economic growth and the most important social concern, poverty, has been unclear.

The perception is that the number of people living below the poverty line has not changed in tandem. Thus, despite the sustained per capita growth accompanied by some measured reduction in income poverty, levels of poverty remain high. The reduction in income poverty has been fairly reasonable and the changes in the non-income dimensions are not insignificant. But there are indications also that there have been significant movements in and out of poverty and the perception that poverty is worsening prevails strongly (Oduro et al 2004). Most important, the ability of the economy to generate employment has definitely not been strengthened after economic reforms in which private investments have hardly been significant. In the final analysis, the perception that social conditions have not improved significantly in twenty years is quite strong.

## 2.2 MICRO-FINANCE

No single intervention can directly and solely reduce poverty. People in developing countries need education, employment and health care among other things to reduce poverty. Some of these poor people also require immediate income transfers or relief to survive (Littlefield et al, 2003).

The availability of financial services to these poor households is one way to offer the necessary relieves to poor people and contribute to economic growth of the household, the community and society in general. The problem is that, these necessary relieves are not easily obtainable for poor people. In many developing countries there is no possibility for poor people to loan money from a bank or other official financial institutions because



of high interest rates, lack of any initial starting capital and other necessary resources or skills. For the poorest people, only informal connections such as the family and the community are possibilities to attain money when needed. These unofficial loans are mostly issued at an unreasonably high interest rate and resources are limited and unstructured (Littlefield et al, 2003). To help these disadvantaged people in forms of offering financial relieves, another form of financial services is needed. These financial services can be offered in the form of micro-finance services.

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Micro-finance was introduced by the Bangladesh professor M. Yunus in 1976 as a reaction to traditional banking in Bangladesh. Traditional or conventional banks were not willing to offer poor people any credits or other financial services and they referred to the poor people as 'not credit worthy'. Prof. M. Yunus detected the opportunity to help these people and he started the Grameen Bank as a small personal project in a small village near his university. Struggling the first few years, the Grameen Bank has now over two million clients and 75% of the bank shares are owned by the poor (landless borrowers). Inspired by this model several countries all over the world replicated the model of the Grameen Bank (Afrane, 2006).

Micro-finance has become increasingly popular since the early 1990's in developing countries all over the world (Johnson and Rogaly, 1997). Today, there are about 7.000 micro-finance initiatives helping about 16 million people all over the world. The United Nations (UN) also sees the growing importance of micro-finance in poverty relief. The

UN declared 2005 as the International Year of Micro-Credit and these days micro-finance is seen as one of the most important 'arsenals' in the war against poverty (Afrane, 2006).

### **2.2.1 Micro-Finance and Micro-Credit**

Micro-finances involve ways of providing financial services in the form of savings and credit opportunities to the working poor (Johnson & Rogaly, 1997). Micro-finance can both refer to small financial transactions for low-income households and micro enterprises (both rural and urban). Micro-finance goes beyond a simple loan for enhancing the business of these poor people. It can also facilitate education, health service, insurance and other necessities to enhance the welfare of the people. Micro-finance gives poor households the ability to manage household emergencies, build assets and reduces their vulnerability to crises.

Micro-finance services range from micro-credit loans, saving facilities, insurance, transfer payments and even micro-pensions (Littlefield et al, 2003). The definitions of micro-finance and micro-credit are often used interchangeably and often it is not clear what one is referring to when mentioning micro-finance or micro-credit. For this research micro-finance refers to the broad range of services mentioned in the first sentence of this paragraph and micro-credit only refers to the financial service of administering small loans to the needy.



**2.2.2 Poverty Reduction and Micro-Credit in Ghana**

Ghana, as a developing country in Africa, also has to work to reach the United Nations MDGs. The Ghanaian government has championed long-term social and economic development programmes to be completed in 2015. Under these programmes, an annual GDP growth rate of 5.5 % is targeted. This growth is especially required in the agriculture and forestry sectors. The agriculture and forestry sectors represent about 60 % of GDP.

These sectors support over 600 enterprises and are currently employing over 8 million people. These sectors are targeted to contribute to sustained GDP growth and enhanced employment generation to reduce poverty. Poverty in Ghana is predominantly rural, contributing 84 % of the total poverty rate and with incidence being 52 % in rural areas as compared to only 23 % in urban areas. To reduce (rural) poverty in Ghana, therefore, emphasis has been laid by the Ghanaian government on forest and/or agricultural based sustainable livelihood initiatives. Most of these initiatives have been supported with Micro-Credit services through banks and other financial institutions (Aryeetey and McKay 2004).

**2.2.3 Impact of Micro-Credit services in Ghana**

It is believed that Micro-Credit services play a very important role in reducing rural poverty and stimulating economic growth in Ghana. Many authors and institutions recognize the importance of Micro-Credit services and they commend Micro-Credit services.

for their contribution to an increase in income, savings and assets of beneficiaries of the Micro-Credit services (Littefield et al, 2003 and Effa & Herring, 2005).

Micro-Credit offers a decrease in the vulnerability of beneficiaries and a deliverance of these social benefits on an ongoing permanent basis and on a large scale (Littlefield et al, 2003). However, there are also authors that critically assess these much celebrated benefits of micro-finance services in their contribution to poverty reduction (Norwood, 2005). The main critique offered by Norwood is that whether or not Micro-Credit services contribute to poverty alleviation depends on one's definition of poverty. If one presumes that extreme poverty is alleviated when households earn more than one US dollar a day then Micro-Credit can make major contributions to poverty reduction. But if the measure of poverty of the World Health Organization (WHO) and the UN is used, which includes considerations of income needed to meet basic dietary needs, average life expectancy, rate of infant mortality; adequate shelter and clothing and so on, the contribution of micro-finance services can paint a totally different picture.

It is thus not easy to say if and how Micro-Credit services have contributed to rural poverty reduction in Ghana. In 2004 a study to assess the impact of Micro-Credit services on poverty reduction in Ghana was conducted by the Kwame Nkrumah University of Science & Technology (KNUST) in Kumasi (Afrane, 2006). The study revealed that the turn-over of beneficiaries increased by 64.5% receiving Micro-Credit loans and as a result of the Micro-Credits the enterprises were able to employ more labour. This resulted



in an increase in employment of 77%. Besides this the loans had positive effects on other conditions such as housing conditions, access to health and education facilities, nutritional levels and self-image of the beneficiaries.

About 61% of the beneficiaries reported that the Micro-Credit Scheme had made significant positive impact on their businesses. This may look like a large percentage, but this still means that not every client benefited from the Micro-Credit Scheme. As much as 36.1% of the clients indicated that their situation did not change much (Afrane, 2006). It is therefore important to take a closer look at existing Micro-Credit services and their contribution to rural poverty reduction in Ghana. Forest and / or agro-based Micro-Credit services should be assessed on their impact in relation to rural poverty reduction in Ghana. If forest and / or agro-based Micro-Credit schemes can be improved in terms of effectiveness, efficiency, outreach and accessibility their contribution to poverty alleviation could be enhanced.

### **2.3 THE TRENDS IN MICROFINANCING**

Many commentators have welcomed the blurring of the boundary between microfinance and mainstream banking on the grounds that only with commercial capital can demand for financial services among poorer people previously excluded from retail banking services be more fully met. For example, CGAP (2004a:1) states that “microfinance will only realise its potential if it is integrated into a country’s mainstream financial system” (CGAP, 2004a:1). Closer integration is also expected to promote institutional innovation and responsiveness to diverse sources of demand.

However, many commentators - indeed often the same ones - have also expressed apprehension that the growing commercialization of microfinance is leading to an over-preoccupation with profitability at the expense of poverty reduction and other development goals (Drake, 2002). Arguments for “concessional finance” (CGAP, 2004a:10) or “smart subsidies” to complement private capital also remain strong, and a “quasi-market” has evolved. This provides microfinance institutions with a mix of funding from public donors, private non-profit social investors and commercial investors to suit the perceived private and public benefits arising from the services they provide.

To the extent that microfinance is motivated by development ends, then the question arises how best to evaluate performance against them. Rigorously measuring the impact of microfinance institutions and policies on the multiple dimensions of poverty and related goals is technically difficult and expensive (de Aghion & Morduch, 2005), and it is not clear how far financial institutions themselves should engage in such assessment. One view is that impact assessment is a task better left to independent researchers and oriented towards informing public policy.

At the other extreme is the view that the potential of microfinance as a development tool can only be realised if financial institutions themselves systematically and routinely investigate their own development impact. An intermediate position favours a mix of more rigorous “proving” impact assessment research for public policy and less rigorous “improving” research for internal use by financial institutions (Hulme, 2000; Goldberg,



2005). But many questions remain. How far can financial institutions safely and responsibly compromise on rigour in order to improve the timeliness and cost-effectiveness of impact research? And if financial institutions can find reliable ways of assessing impact for themselves, then is public policy better served by auditing and sharing such effort, rather than by funding expensive independent studies that are often limited in time and scope? The distinctions between “proving” and “improving”, rigorous and reliable research into the outreach and impact of microfinance are not as straight-forward as they may appear at first sight (Copestake, 2000; Sebstad & Cohen, 2001; Simanowitz, 2001).

In the last few years, debate over impact assessment within non-profit financial institutions has converged with debate over corporate social responsibility of for-profit institutions. Both concern incentives to set and monitor social goals, and raise questions about the managerial feasibility of “multi-tasking” (de Aghion & Murdoch, 2005:263) or managing a “double bottom line” (Tulchin, 2003). Both also address bigger questions of power and rationality: what political room for manoeuvre exists (if any) to encourage financial institutions to address wider social goals, and how far are they technically capable of doing so? Whether it entails abandoning welfare goals for profit, or vice versa, the idea of mission drift suggests a deeper problem of lack of transparency and weak performance management. More specifically, it can be argued that social performance assessment and management has failed to achieve the same clarity, consistency and level of acceptance as financial performance assessment and management.

## 2.4 POVERTY REDUCTION

Various developmental approaches have been devised by policymakers, international development agencies and non-governmental organisations aimed at poverty reduction in developing countries in the past two decades (Afrane, 2002). A few years ago the United Nations formulated several clear goals to attain these various goals and development approaches. These United Nations' Millennium Development Goals (MDGs) are a set of clear goals to be met to improve the welfare of the world's neediest people (Littlefield et al, 2003). The goals are to be met to reduce poverty and hunger, eliminate HIV/ AIDS and other infectious diseases, empowering women and improving their health, educating all children and lowering child mortality (Littlefield et al, 2003).

One of the MDGs is halving the number of people who are living in absolute poverty. This means that by 2010 the number of people who have to live on less than one dollar a day has to be half of the estimated 1.2 billion people who live in absolute poverty today. Research has shown that to be able to meet this specific goal and the other MDGs, other contextual factors must be met (Littlefield et al, 2003). These factors include a functioning government, physical security, economic growth and basic infrastructure including provision of financial resources to ensure sustainable livelihood for especially the disadvantaged poor such as local communities. In response to this, many NGOs have made the provision of sustainable livelihoods to local communities a major activity. One of the mechanisms is through the distribution of micro-credit.



As a result, many organizations have various forms of credits to local communities with the sole aim of providing sustainable livelihood and thus income to reduce poverty. Therefore in evaluating a micro-credit scheme in terms of its effectiveness in reducing rural poverty it is necessary to define poverty. There are several ways to define poverty and it turns out that poverty is a multi-dimensional concept with complex interactive and causal relationships among the dimensions (GPRS, 2002). In the Ghana Poverty Reduction Strategy, poverty is defined as 'unacceptable physiological and social deprivation'. This deprivation according to GPRS (2002) might be caused by:

- lack of capacity of the poor to influence social processes, public policy choices and resource allocations
- low capacities through lack of education, vocational skills, entrepreneurial abilities, poor health and poor quality of life
- the disadvantaged position of women in society
- exposure to risks through lack of financial, social or physical security
- low levels of consumption through lack of access to capital, social assets, land and market opportunities
- exposure to shocks due to limited use of technology to stem effects of droughts, floods, army worms, crop pests, crop diseases and environmental degradation
- inadequate environmental protection measures
- lack of macro-economic stability that erodes the resources of the poor through inflation and other variables
- the inability of the national economy to optimize benefits within the global system

- habits and conventions based upon superstition and myths giving rise to anti social behaviour
- other factors leading to vulnerability and exclusion.

#### 2.4.1 Current Government Commitment to Growth and Poverty Reduction

Indeed after nearly two decades of reforms and sustained positive growth rates, it is now acknowledged that both higher growth rates and direct attempts at tackling poverty are required in order to achieve a more significant impact on poverty reduction. The results of the GLSS household surveys show that there is still a large proportion of the population living below the poverty line. The government's blueprint for pursuing the goals of growth and poverty reduction are incorporated into the Ghana Poverty Reduction Strategy (GPRS). The GPRS follows very much the policies laid out within the earlier reform programmes (ERP/SAP) but attaches some importance to direct interventions and expansion in the provision of social services and social safety nets. The GPRS calls for US\$5,283 million in total investment to achieve its policy goals. Of this, US\$2,515 million will be required for the medium term (2003-2005). It focuses on five priority areas for the three-year period 2003-2005, namely Infrastructure, Modernized Agriculture based on Rural Development, Enhanced Social Services, Good Governance, and Private Sector Development.

One of the more topical issues relating to government commitment to poverty reduction is the nature of interventions to bring about greater equity in the development of Ghana's administrative regions. Under the current constitution, the need for spatial



equity in the allocation of resources is explicitly stated under “the directive principles of state” and government is obliged to ensure this. While there are several policy initiatives intended to achieve greater balance, and there have been many direct interventions through projects to address the development gap, the wide gap remains the biggest challenge to socio-economic development in Ghana.

#### 2.4.2 Trends in poverty and inequality

Much of the available information on poverty and inequality in Ghana has been assembled over the last two decades, with conventional administrative data now being supplemented with survey data and qualitative or participatory assessments of poverty. Important qualitative sources include a participatory poverty assessment carried out in several rural and urban communities in 1994/95 (Norton et al, 1995); the Ghana Voices of the Poor study (Kunfaa, 1999); the participatory poverty consultations conducted in 36 communities as part of preparing the GPRS (Government of Ghana, 2003); as well as a large number of other local level studies.

Important sources of survey data include the Demographic and Health Survey (DHS; conducted in 1987, 1993, 1998 and 2003); Core Welfare Indicators Questionnaire (CWIQ; 1987 and 2003); and the Ghana Living Standards Survey (GLSS; 1987/88, 1988/89, 1991/92 and 1998/99 with another round planned for next year). The 2000 Population and Housing Census also provides some information of relevance to poverty, e.g. on availability of facilities, and is also a key source for the recently completed

poverty mapping exercise (Coulombe, 2004) which provides estimates of income poverty at a district level.

As already noted, all available evidence suggests substantial levels of poverty or deprivation in Ghana, notwithstanding recent progress. There are also important patterns to poverty in Ghana, notably by geographic location, with almost all studies, methods and indicators showing substantially higher levels of deprivation in the northern savannah region compared to the south. For example, 42.2% of all households in Ghana in the lowest income quintile in Ghana in 1998/99 are located in the rural savannah, yet this locality only accounted for 20.6% of the overall population. The reality though is more complex, with a number of poor areas in coastal areas as well, notably in the Central region.

Further, the Ghana poverty map shows important variations within localities as well, with less poor districts within very poor northern regions and a number of poor districts in coastal areas in the south with comparable poverty levels to many northern districts. There is a strong urban-rural differential in poverty indicators, with deprivation being substantially higher in rural areas. Poverty also has important gender dimensions, with most indicators showing that women face higher levels of deprivation compared to men, and levels of income poverty are higher among households with higher dependency ratios. Landlessness, historically not a major problem in Ghana, has become an increasingly important issue underlying poverty and insecurity in peri-urban areas (Government of Ghana, 2003). Few of the poor work in non-agricultural wage



employment, with the large majority working in small-scale agriculture. The majority of the latter produce food crops, though there are also significant numbers producing cocoa and other export crops that are poor.

### 2.4.3 Poverty and Social Development

The extent and depth of poverty are generally to be seen as outcomes of the absence of effort to change the structure of the economy over several decades (Aryeetey and McKay 2004). The absence of change has left Ghana quite dependent on its resource endowments mainly and with that has come the associated vulnerability. The rigid economic structure with a rapidly growing population may be expected to create problems for any economy, thus leading to poverty among the population.

There is currently a lot of data on poverty and inequality in Ghana after several surveys over the last two decades. Thus conventional administrative data has been supplemented with survey data and qualitative or participatory assessments of poverty. Some of the important qualitative sources are the participatory poverty assessment carried out in several rural and urban communities in 1994/95 (Norton et al, 1995) and the Ghana *Voices of the Poor* study (Kunfaa, 1999).

What both the qualitative and quantitative assessments indicate is a large number of people that are poor and deprived. There are some important patterns to poverty in Ghana, mainly by geographic location, with the worst cases of deprivation in the northern savannah region compared to the south. The GLSS data of 1998/99 showed that 42.2% of

all households in Ghana in the lowest income quintile were located in the rural savannah, even though this area accounted for only 20.6% of total population. In the 1992-98 period Aryeetey and McKay (2004) report that the headcount income poverty fell from 51.7% of the population to 39.5%, with strong geographic and other patterns. Inequality as measured by the Gini coefficient increased slightly over the same period.

The overall rate of poverty reduction over the period suggests a growth elasticity of poverty incidence of 0.98, a figure which is comparable to other African countries (Christiaensen et al. 2003). But there are pockets in southern Ghana with high levels of poverty and deprivation, particularly in the Central Region. The Ghana poverty map (Coulombe 2005) also shows important variations within localities, so that less poor districts within the very poor northern regions and a number of poor districts in coastal areas in the south have comparable poverty levels.

The data shows a strong urban-rural differential in poverty indicators, with deprivation being substantially higher in rural areas. Poverty also has important gender dimensions, with most indicators showing that women face higher levels of deprivation compared to men, and levels of income poverty are higher among households with higher dependency ratios. Landlessness, historically not a major problem in Ghana, has become an increasingly important issue underlying poverty and insecurity in peri-urban areas (Government of Ghana, 2003). Few of the poor work in non-agricultural wage employment, with the large majority working in smallscale agriculture. The majority of



the latter produce food crops, though there are also significant numbers producing cocoa and other export crops that are poor.

**Table 2 Summary Information on Changes in Income Poverty and Inequality at the National Level**

	1991/92	1998/99	Changes, 1991/92 to 1998/99
Average value of income standard of living measure (from survey; millions of cedis per person per year, constant prices)	1.44	1.78	3.1% p.a.
Change in real consumption per capita (national accounts)			2.9% p.a.
Gini coefficient	0.373	0.388	
Poverty headcount index (per cent)	51.7	39.5	-12.2
Growth elasticity of poverty headcount index			0.98

Source: Aryeetey and McKay 2004

In the Coulombe (2005) presentation of the poverty map (this volume), he discusses extensively the methodology and documents the numerous advantages that both the 15 Ghana Census 2000 and the Ghana Living Standards Survey (GLSS IV) provide to policy makers and users in developing poverty profiles and maps at district and sub-district levels in Ghana. The methodology takes advantage of detailed information found in the survey and the exhaustive coverage of the census which makes it possible to compute standard errors of the different poverty estimates and therefore conveys a notion of reliability of estimates arrived at. Significantly, researchers could easily use it with some fair degree of accuracy to determine the relationship between poverty distribution in Ghana and different socio-economic outcomes.

Appiah-Kubi, et al (2005) provides a poverty profile of Ghana using mainly GLSS IV data and estimate the incidence of vulnerability in Ghana using a cross-sectional

approach. With various conceptualizations of vulnerability, the authors argue that Ghanaian households and individuals vulnerable to poverty include both poor and non-poor, and are estimated to be 49.5 % of the total population in 1998/99. They suggest the need for further investigation, both quantitative and qualitative, of poverty dynamics in Ghana to provide information for more rigorous analysis.

They advocate the use of public policy to provide a stable macroeconomic policy framework within which agents operate and provide safety nets (welfare enhancing) for households and individuals experiencing shock (vulnerability) to fall on for recovery. In this light, they regard the Ghana Poverty Reduction Strategy (GPRS) as well intentioned to address the plight of the vulnerable and excluded but suggest that it falls short on providing assistance to food crop farmers to enhance their production. A major step forward will be to take measures to enable food crop farmers cope with the perennial long dry season.

## **2.5 HISTORICAL CONTEXT AND GROWTH-POVERTY TRENDS**

The extent and depth of poverty in current day Ghana is generally perceived to be de-rived from the absence of effort to change the structure of the economy since colonial times. This has left Ghana quite dependent on its geographical characteristics and resource endowment for production. This former British colony covers a surface area of 238,537 sq km and borders Côte d'Ivoire, Burkina Faso and Togo in West Africa. The country is divided into ten administrative and commercial regions with Accra as its capital. The climate in Ghana is tropical, with annual mean temperatures averaging



between 26°C and 29°C. It is these characteristics that have left the economy basically agricultural and with low incomes despite being regarded at Independence in 1957 as a beacon in Africa; “the shining star” on the continent.

A rigid economic structure with a rapidly growing population is bound to create problems for any economy. The total population of Ghana was counted at 18,912,079 in the 2000 census and is expected to grow annually at 2.1% for the period 2000-2015. Population density in 2000 stood at 79.3 persons per sq. km, which is high for the West African region. The fertility rate was 4.20 per woman in 2000, a significant decline from 6.50 in 1980 (World Bank, 2003). This is also lower than the Sub-Saharan African average which stood at 5.20 in 2000. The population growth was 2.06% in 2000, slightly lower than the regional rate of 2.43%. But the proportion of children under 15 years is still large at 44.2% (World Bank, 2003), reflecting faster population growth in the recent past. The population is ethnically quite diverse, an important issue given recent history of tensions and conflict with ethnic dimensions in other West African countries, including neighbouring Côte d'Ivoire.

Ghana is currently reputed to be one of the most stable countries in West Africa and a successful partner and leader in the democratization of the sub-region. It re-affirmed its commitment to democratic processes after the last presidential and parliamentary elections in 2000. Those elections saw an elected government hand over power to another democratically elected government. A wide range of cross-country governance indicators assembled for this project show that Ghana scores better than the Sub-Saharan African

average, often substantially so, including the following areas: protection against appropriation risk, voice and accountability; political instability and violence; government effectiveness; and rule of law. On the whole, Ghana has the ingredients to make the democratic process more effective and vibrant including a well-balanced parliament, an independent judiciary, a vibrant press, efficient election machinery, and a growing and knowledgeable civil society.

In its Ghana Poverty Reduction Strategy (GPRS; Government of Ghana, 2003), the Government is committed to achieving faster poverty reduction, with accelerated growth to play a key role in this. Accelerated growth was an important objective of the Ghana's Vision 2020 Plans, developed by previous governments, and drawing on discussions with development partners, especially the World Bank. These growth rates though were generally not achieved. This raises the repeatedly asked question of whether Ghana can alter more rapidly the current poverty trends, applying increasingly policies to achieve the type of structural changes that will have a more widespread impact on the population. We try to answer that question by reviewing Ghana's experiences with growth and how they may be associated with recent poverty outcomes. In doing this we consider economic policies that have sought to influence the growth path and assess their likely impact on poverty reduction.

## **2.6 — Small Enterprise Development and Women**

Small enterprise development is underlined as a key strategy for both poverty reduction and empowerment in international agreements on Millenium Development Goals, a series



of Declarations on Social Development and Beijing Declaration on Women's Rights. It is generally agreed that small enterprise development can make an important contribution to pro-poor growth, understood as requiring mutually reinforcing processes of:

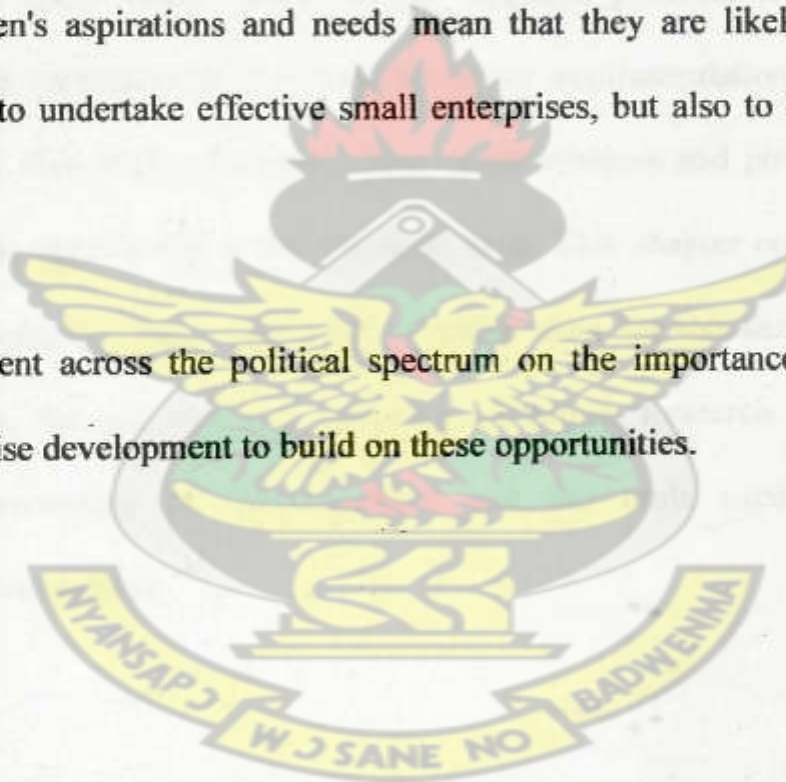
- a. ***Economic growth and wealth creation:*** growth of the small-scale sector is essential to economic growth itself and ensuring that wealth is widely spread.
- b. ***Poverty reduction and employment creation:*** entrants into the small-scale sector are often poorer than in the formal sector and small enterprises are generally more labour-intensive. Increased incomes enable very poor people, including women, to gradually move out of poverty, increasing the profits from their enterprises and purchasing necessary services, including health and education.
- c. ***Economic, social and political empowerment*** for entrepreneurs themselves through increasing choices, autonomy and control over incomes, trade and working conditions.

For women in particular the skills, networks and income from enterprise activity is seen as giving them greater power to negotiate economic, social and political changes in gender inequality at household, community and even national levels. The economic and social context of economic liberalisation and globalisation also offer opportunities as well as challenges:

- a. with effective support and empowerment strategies, poor people may be able to take up the economic opportunities offered by economic liberalisation

- b. innovations in information technology, offers opportunities for rapid and effective information exchange not only for export sales, but also about techniques and markets for the local and national economies
- c. information technology also enables cheap and effective networking across national boundaries
- d. Changes in women's aspirations and needs mean that they are likely to be not only increasingly able to undertake effective small enterprises, but also to benefit from their development.

There is general agreement across the political spectrum on the importance of a number of elements in small enterprise development to build on these opportunities.





## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

A good research involves a proper data collection and data analysis methods that best represents the scope and elements under study. Such careful selection provides a platform for an appreciable analysis of the importance of the research and the recommendation being considered for the area under study. This study examines micro credit schemes and poverty reduction in forest fringe communities, specifically in the Dunkwa Area. This chapter outlines the various tools; methods and procedures which were used to gather data for the study. It specifically looked at the population, Sample size and sampling technique, Research instruments, data collection procedure, pre-testing of Questionnaires and the tools used to analyse the Questionnaires and the data analysis.

#### **3.1 POPULATION**

The entire Dunkwa Central Market Women served as my target population. Thus all the traders in and around the market were considered. The population was selected because,

that would give a wide coverage of the result of the findings. In addition to this, most micro-finance institutions who have the micro- credit scheme have expressed much interest in the financing of women and poverty alleviation in such fringe communities. As such, facts were collected from as many sources as represented in the research area selected and to make a more representative conclusion. Such institutions were contacted and also the market women questioned for the primary information for the study.

### 3.2 SAMPLE SIZE AND SAMPLING TECHNIQUE

A sample size of 50 respondent traders were selected from the market, considering the various types of wares they dealt in on the market. Thus a selection was made to represent all the various selling groups on the market. These respondents and groups were selected in cooperation with their various group leaders and unions based on their willingness to cooperate with the research, their geographical location in the market and the number of members they had by using the non-probability sampling method. Specifically, the purposive or judgmental sampling method was used. This method involved grouping the elements of the study area, which is, groups of identifiable characteristics, and then used the purposive criteria to select the respondents or elements. Due to the nature of the spread of the study, this method is considered as suitable in reaching our respondents. The process thus involved the deliberate selection of respondents to constitute the sample size. Market Women benefiting from Agro-credit schemes and micro – credit institutions were selected in accordance with the established objectives of the study.



Validity of the data would be enhanced by having several people analyzing the results and reliability through careful data collection and having key informants review the draft case reports. In view of the subjective nature of the study, in line with, Goodwin *et al.*'s (1997, p. 170) methodology, we would assess the validity first, by sending a summary of the findings to micro - financiers for their comments and suggestions. Experts (i.e. academics with expertise in financing in the Ghana small business sector) with expertise in micro-credit schemes and qualitative research would be given copies of the draft version of this study for their comments. Their suggestions would be subsequently incorporated in the study.

### 3.3 TOOLS OF DATA COLLECTION

The tools used for the research were Questionnaire and interviews. The questionnaire and interviews were used to collect quantitative as well as qualitative data.

#### 3.3.1 Questionnaire

Self-administered questionnaires were predominantly used in collecting data from respondents although existing literature provided us with additional information. These were printed in English with neatly printed lines for respondents to provide their responses. It was numerically stated to differentiate one question from the other. Boxes were provided for respondents to tick where necessary.

Questionnaires were used in cases where personal interview was impossible to carry out. For instance beneficiaries of the micro-credit schemes may be given questionnaires to

answer which will be collected at a later date. This will reduce inconveniences caused by unfavourable interview times and busy schedules.

Before questionnaires were administered they were subjected to thorough testing and amendments before they are dispatched to respondents.

There was one questionnaire designed for all categories of people who are directly connected and operates with such Agro- credit scheme in forest fringe communities. The questionnaires contained 26 questions. Some of these question were open- ended while others were pre-coded (Multiple choice and True/False) with majority of the questions being close - ended.

The open - ended questions were given to respondents to solicit for views which they believe are vital for getting information on the how the scheme can reduce poverty among women in the district. With such questions, spaces were created for respondents to write their views. This was important because it gives the respondents the freedom to express his views without any restriction of feelings on the issue under investigation. It also provides the bases for recommendations to be suggested on the findings. This is because the results that were gathered represented the true nature of the issue understudy.

On the other hand, the close - ended questions were given to respondents to answer. With these questions, answers were provided for respondents to select their views. Some of the questions were multiple choice where as others were Yes/No.



The lengths of the questionnaires were influenced primarily by the scope of the study and the depth of information desired.

### **3.3.2 Pre-Testing Of Questionnaires**

Pre-testing of the questionnaires was conducted to ascertain the suitability of the questions asked. In conducting the pre-testing two vital factors the researchers considered were proximity and cost. The rationale behind the pre-test was to address any biases that could rise out of the results. It also helped to reframe and restructure the questions in the questionnaire to suit the research objectives.

The coverage of the pre-test was Men in the Dunkwa Central Market, this is because they were not part of the final sample and will provide a suitable information because they were operating in the area. Secondly, people who have knowledge in the micro- credit scheme were also used.

### **3.3.3 Interviews**

Various categories of stakeholders including Non – Governmental Organization operating in the area and officials of Microfinance institutions were interviewed as part of the data gathering process. This was done for relational analysis of views and for other confirmatory responses given by respondents. Information from this category of people will shed authentic light on the Scheme and how it will reduce poverty in the market.

The use of interview in this study is deemed appropriate in order to get as close as possible to interviewees. This is intended to afford interviewees the opportunity to express themselves and to afford interviewers the chance to ask other relevant questions that may come to bare during the interview process.

Structured and semi- structured questions were used in the data collection.

The structured questions were used to solicit information from the managers. This was done to have in-depth understanding of the microfinance situation in the Dunkwa central market. These questions were written on papers and the researcher categorically asks the interviewee.

The semi - structured questions were used for further clarification from respondents on responses that are not clear. These questions were formed during the process of the interview. Questions are quickly taken to be asked after the interviewee has finished with the questions he is answering.

Most of the questions involving how the market women could access the scheme and how they think it could reduce poverty in the area. This was done in other to help the researcher solicit information for recommendations to be suggested to the benefactors of the research.



**3.4 PRIMARY DATA COLLECTION**

The primary data were collected in the Dunkwa central market, NGOs and beneficiaries of the micro-credit scheme as well as scheme providers. First of all reconnaissance surveys were carried out to identify the relevant stakeholders and to identify the various micro-credit schemes in operation in the market. After the identification of the schemes a sample of beneficiaries was selected to be used for evaluation. The selection of the women was based on the following criteria:

KNUST

- The purpose of assessing micro-credit scheme (business development and improvement of livelihood)
- Number of participants in the market enjoying a particular micro-credit scheme
- Number of years the micro-credit scheme has been in operation in the market
- Whether the micro-credit schemes accessed have impact on the market women
- If the micro-credit institution and the market women is willing to cooperate with the research

After the selection of the respondents several methods were used to collect the primary data. These methods include questionnaires for beneficiaries and key stakeholder interviews.

### 3.5 SECONDARY DATA COLLECTION

Secondary data was obtained from the following sources:

- a. Publications from the District Assembly
- b. Documents from microfinance institutions in the area
- c. Scientific publications
- d. Ghanaian Newspapers
- e. Internets

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In addition, data in the form of journals, books, institutional handouts and so on were analysed to identify the various issues in the questions under study.

### 3.6 DATA ANALYSIS

Quantitative and qualitative methods of analysing statistical data were employed in the analysis of the data. The results were subsequently computed into percentages. Percentage values, which were not round figures, were approximated to the nearest whole numbers. Diagrammatic representations of the statistical summaries of the results were presented in the form of pie charts, bar graphs and tables.

Computer data analysis software such as SPSS and other relevant software were the main tools employed to analyse the data in order to help interpret results. The Social Science Statistical package (SPSS) was used to analyse the close - ended questions. This package was used to compute the percentages because it is easier to use. It can also be used to make the tables needed for discussions of the results.



## CHAPTER FOUR

The other questions that were open-ended were analysed by listing all the vital response given by the respondents. They were then considered based on their relevance to the research. This gave the general ideas about the problem in question. Computer data analysis software was employed to analyse the data in order to help interpret results.

The research went through six main processes, the process included;

- a. Pre-Editing: this looked at examination of the responses received for completeness, relevance, appropriateness and its importance to the study.
- b. Coding of Rough Data: this involved the grouping of the data into the various categories and subjects that would best help analyze them.
- c. First Write Up: this is the stage where the information was written to form one continuous piece.
- d. Data Entry: this is where modern techniques were employed to typeset the data.
- e. Data Modification: at this stage the researcher sent the drafts for editing and for expert advice. After, corrections were made to give it an appreciable form.
- f. Finishing: at this stage the entire project was put together and final corrections made. It was at this stage that printing and binding took place to give the research a complete form.

## CHAPTER FOUR

### ANALYSIS, FINDINGS AND DISCUSSIONS

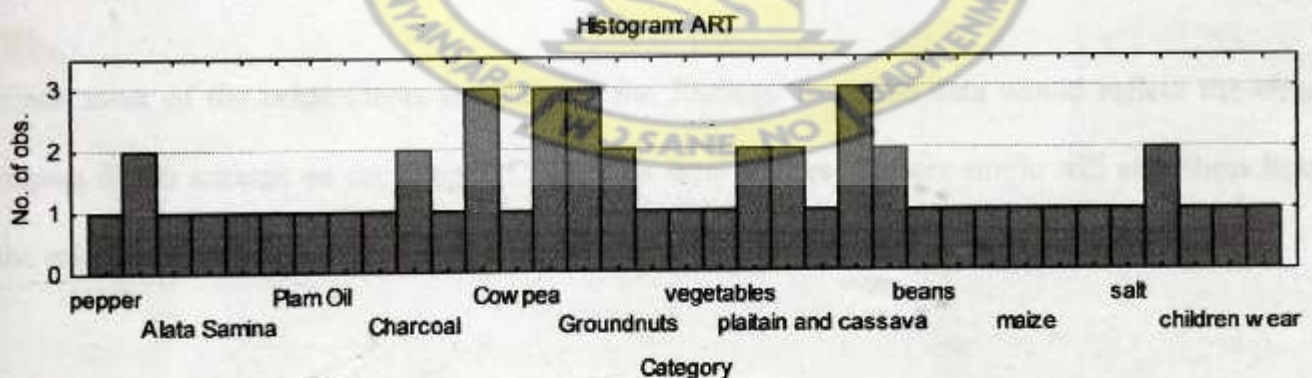
#### 4.0 INTRODUCTION

A careful analysis of the data collected on the said topic in the District revealed certain pertinent issues. These revelations are captured in this chapter and in some instances recommendations made to improve upon the situation for reading among students in the district. Some of these findings and recommendations are presented below.

#### 4.1 PROFILE

The study focused on the market women in the study area. The figure 1 below gives the details of the respondent understudy. From the figure, it is obvious that, the sample was fairly distributed to cover a wider range of market women.

Figure 1: Area of Trade

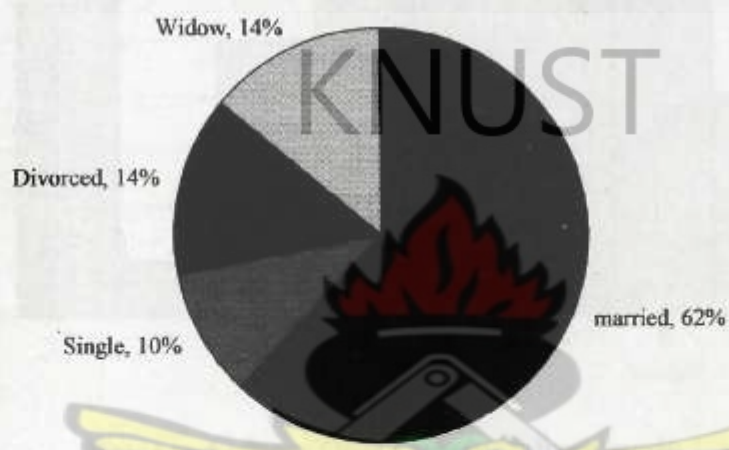


Source: Authors Own Construct from study



Out of these 50 respondents 62% of them were married, 14% were divorced and other 14% were widow and the other 10% were single. This is shown in figure 2.

**Figure 2: Marital Status**

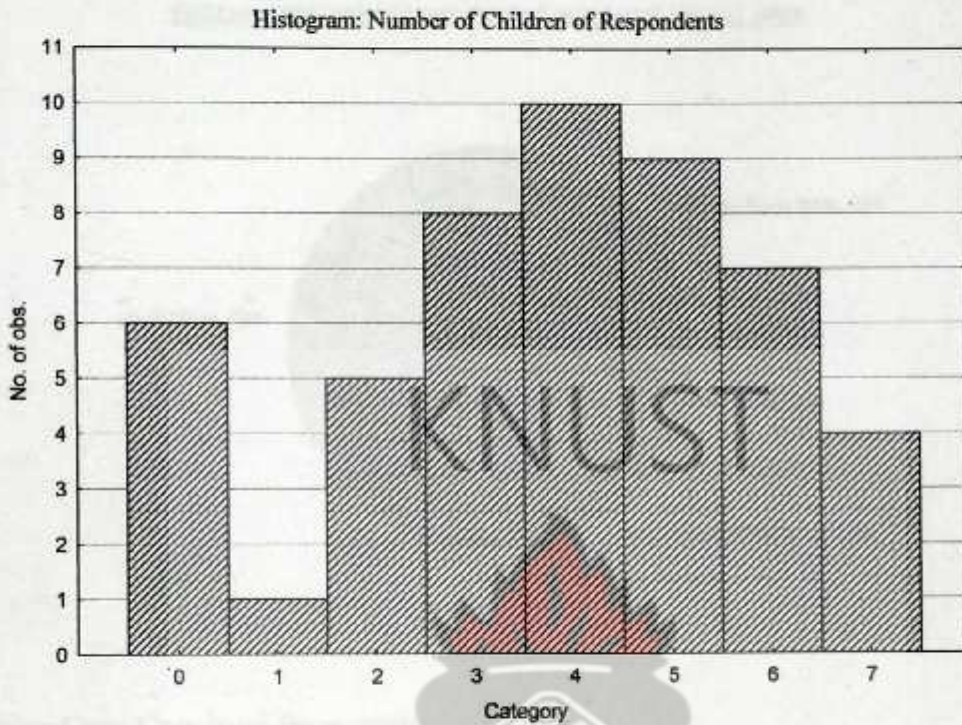


Source: Authors Own Construct from study

Since most of the respondents are married the findings from the data would reflect the clear impact of the scheme on the people. Comments from traders who are single will also show how the microfinance institutions impacts on future prospective business women and men.

The impact could also be measured based on the number of children these respondents have.

**Figure 3: Number of Children**



Source: Authors Own Construct from study

From the figure above, the number of children of the respondents ranges from 0 – 7. Those who have 4 children were many (10) and those with only one child were 1 with those who have no children recording 6. This indicates that, if the impact of the MFI's is positive, its effective would be tremendously felt by a large majority of people within the study area.

## 4.2 MICROFINANCE

The research delved into the microfinance institutions that are available in the District and those that the respondents access their loans. The data obtained from the study is represented in figure 4 below.



**Figure 4: MFI Operating in Dunkwa Market**

Pie Chart : MICROFINANCE INSTITUTIONS IN DUNKWA MARKET AREA



Source: Authors Own Construct from study

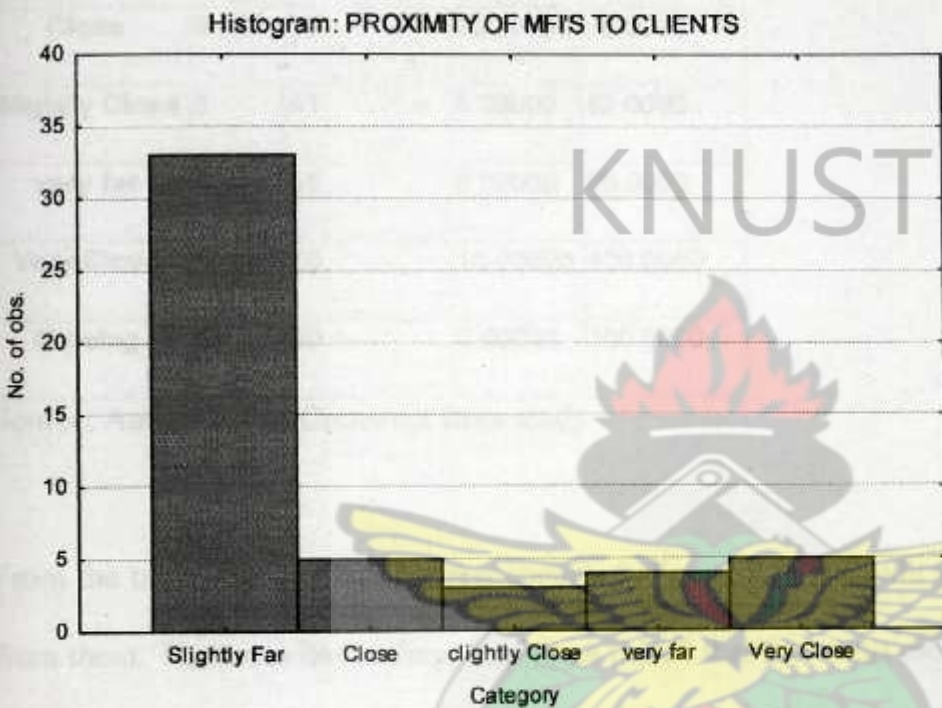
The diagramme above indicates that, Credit Unions dominate the scene with 46% of the respondents accessing loans from these non-banking institutions. The other institutions are formal banking institutions that also operate microfinance in the area. The area indicated that Twifoman Rural Bank and Upper Amanfi Rural Bank have 28% and 26% respectively of the respondents accessing loans from the formal Banking institutions.

#### **4.2.1 Proximity of the MFI' to respondents**

The study after looking at the various microfinance institutions available in the district also looked at how close the MFI's to the respondents. This was essential because it helps

to measure how accessible the loans are to the poor. It tells the complications the respondents go through before they are given the loans.

Figure 5



Source: Authors Own Construct from study

The Figure above shows that, the MFI's are far from their respective customers. This is obvious from the data that, the MFI's are slightly far from their clients. But as to which MFIs which are far from the customers, the data in table 1 gives the details of the responses from the respondents.



Table 1

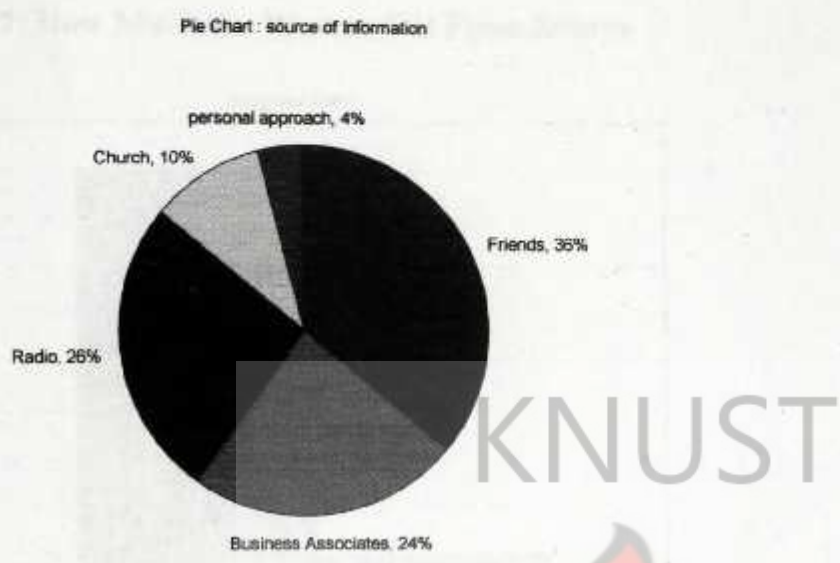
Frequency table: PROX (Spreadsheet2)				
	Count	Cumulative	Percent	Cumulative
Slightly Far	33	33	66.00000	66.0000
Close	5	38	10.00000	76.0000
Slightly Close	3	41	6.00000	82.0000
very far	4	45	8.00000	90.0000
Very Close	5	50	10.00000	100.0000
Missing	0	50	0.00000	100.0000

Source: Authors Own Construct from study

From the table above, 17 of the respondents believe that the Credit Unions are slightly very far from them. That notwithstanding, 3 of them ticked that the credit unions are very far from them. 12 of them said that Twifo Rural Bank is slightly far from them. This according to the Data puts Upper Amanfi Rural Bank to be close to them. 5 of the respondents think that the Bank is close. This implies that, the Banking institutions according to the data are closer to the clients than the Credit Unions.

The study tried to find out how the women got the information about the MFIs they do business with.

**Figure 6**



Source: Authors Own Construct from study

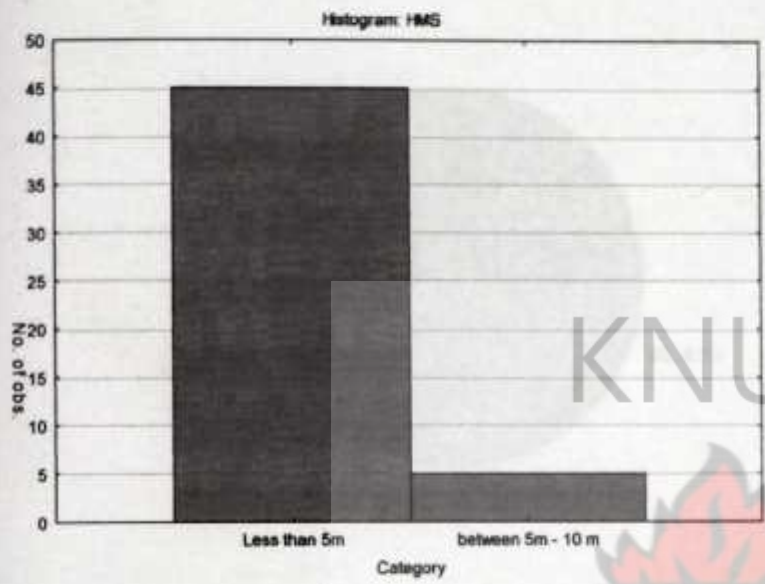
The figure above shows the means through which people get their information about the MFIs from. From the table, 36% of the market women get their information from Friends. Business Associations, 24%, 10% from churches, and 26% from radios. This indicates that, the customers of these customers these MFIs are connected to each other in terms of the dissemination of information on loans However, only 4% of the entire respondents approached the MFIs personally. This implies that, if the products of the MFIs refuse to advertise their products well, its impact on the community will be minimal.

**4.3 EFFECTIVENESS OF THE MICROFINANCE INSTITUTIONS**

One of the areas of accessing the effectiveness of the MFIs according to the study is in the area of how much money they are able to access from the MFIs and the returns they get from using the said loan.



**Figure 7: How Much the Women Get From Source**



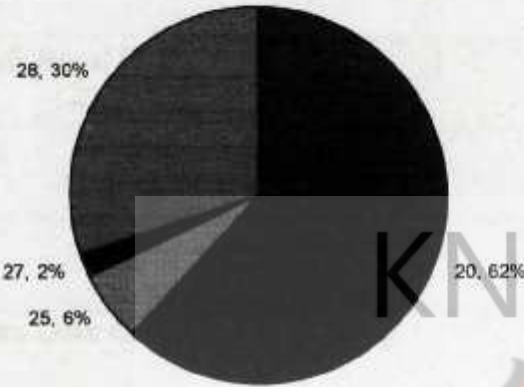
Source: Authors Own Construct from study

The diagram above shows how much loans are disbursed by MFIs to their clients. On the figure, most of the market women receive a maximum of 5m cedis on a stepping lending bases (they give more as the repay their loans).

On the other side, the amount received will alone cannot be used to access the impact of the loan on the market women. To this, the interest on the said amount would go a long way to affect the marginal profit returns of the client. The study therefore took a turn to look at the interest rate charged by the various MFIs.

**Figure 8**

Pie Chart : Interet rates and their respective percentages



Source: Authors Own Construct from study

From the figure above it is obvious that the interest rates range between 20-28%. The data indicated that, 28 of the entire respondents indicated that, most of the loans less than 5million cedis attract interest rates less than 20%. From the data, it was revealed that the Credit unions have low Interest rates as compared to the formal bankers. It was realized that, the impact is better felt on the people within the Credit Union family.



Table 2: Microfinance Choice by the interest rates charged

RMF1	IR 20%	IR 25%	IR 27%	IR 28%	Total
Twifoman Rural Bank	8	1	0	5	14
Upper Amanfi Rural Bank	10	1	0	2	13
credit Union	13	1	1	8	23
All Grps	31	3	1	15	50

Source: Authors Own Construct from study

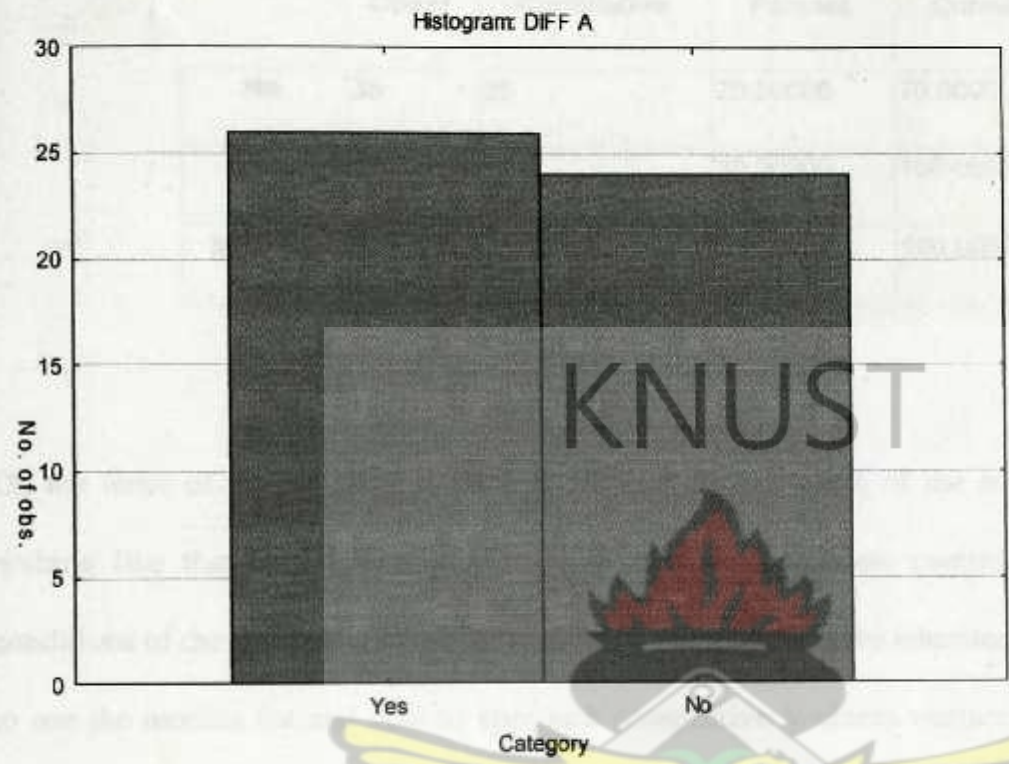
It is clear from the table that, Credit unions showed a very comparative Loans schemes with a very low interest rate as compared to the loans from other banks. The study continues to find out the difficulty level at accessing a loan from the various MFIs.

Table 3 Difficult in Assessing loans

	Count	Cumulative	Percent	
Yes	26	26	52.00000	
No	24	50	48.00000	
Missing	0	50	0.00000	

When the respondents were asked, the data revealed that it is difficult to access loans from the MFIs.

Figure 9



When they were asked to mention some of the area that they find difficulty when accessing their loans, they enumerated among other things:

1. One should be a member of an association or group before a loan facility could be accessed.
2. There is also a compulsory savings which reduce the income base of the customer



Table 4 : Use of Finance for Different Jobs

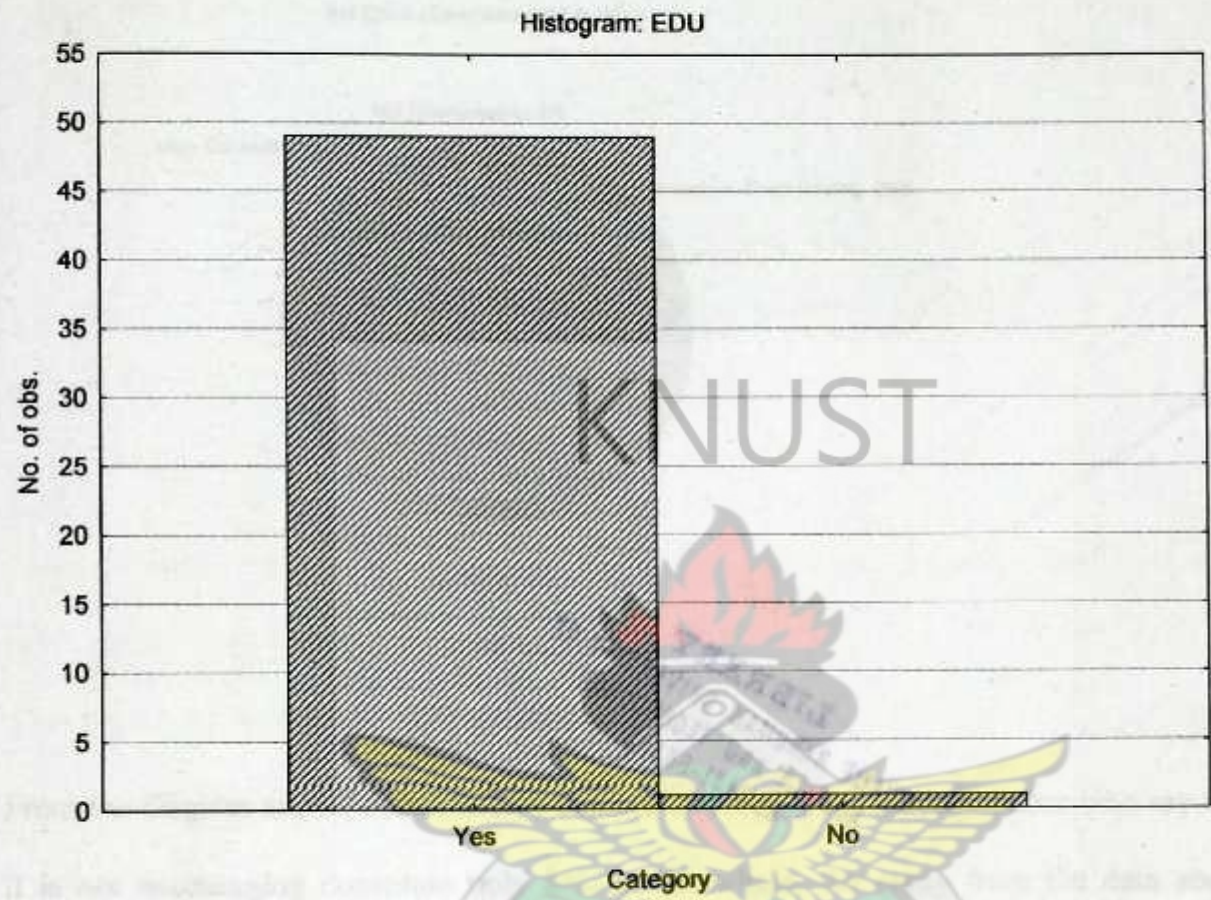
	Count	Cumulative	Percent	Cumulative
<b>No</b>	35	35	70.00000	70.0000
<b>Yes</b>	15	50	30.00000	100.0000
<b>Missing</b>	0	50	0.00000	100.0000

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On the issue of people using monies for different jobs, 100% of the respondents believe that nothing like that hard happened. This implies that people are committed to the terms and conditions of the finances. On the other hand, the respondents are educated by the MFI's on what to use the monies for and how to approach prospective business ventures. The study therefore wanted to find out if they have been educated on how to use their loans.



Figure 10

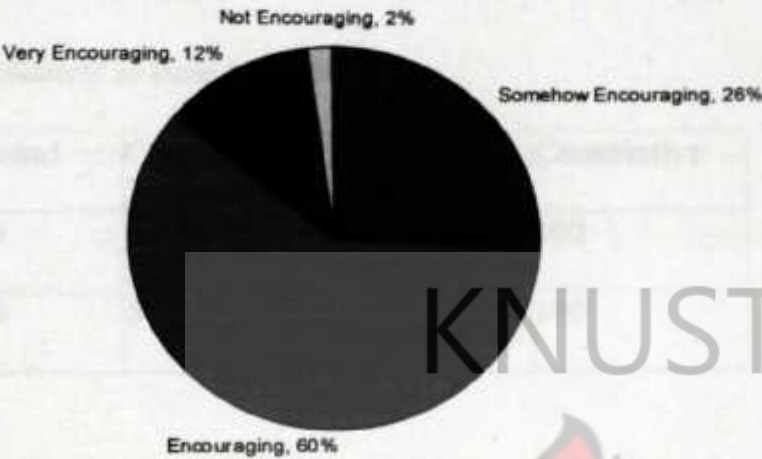


The diagram above shows the responses of people on whether or not they are educated on what to use their monies for. From the diagram, 49 out of the 50 respondents believe that they are educated on where to invest their loans. Respondents were then asked how the education impacts on their livelihood.



Figure 11

Pie Chart (Spreadsheet2 56v\*50c)



From the diagram above, 60% believes that the impact is encouraging. Those who say that it is not encouraging constitute only 2%. In the whole, the study from the data above impacts positively on the livelihood of their respondents or clients. To those who answered that the impact is positively on their lives, 26% believe that they are somehow encouraging, while 12% believe that they are very encouraging.

Table 5

Impact on Livelihood					
EDU	IML	IML	IML	IML	Total
Yes	13	29	6	1	49
No	0	1	0	0	1
All Grps	13	30	6	1	50

The respondents were also asked if collaterals are taken from them before the loans are given to them. Table 5 gives details of their responses

Table 5: Collateral as Base for Loan

	Count	Cumulative	Percent	Cumulative
Yes	50	50	100	100
Total	50	50	100	100

From the table, 100% of the respondents' state that collaterals are taken from them before the said loans is given to them.

They stated that, collateral in the form of

1. Initial deposits
2. Farming Land
3. Other home appliances

The study wanted to find out if the respondent supports the assertion that collaterals should be collected before loans are distributed.

Table 6: Support for the use of collateral

Response	Count	Cumulative	Percent %	Cumulative
No	42	42	84	84.
Yes	8	50	16	100
Missing	0	50	0	100

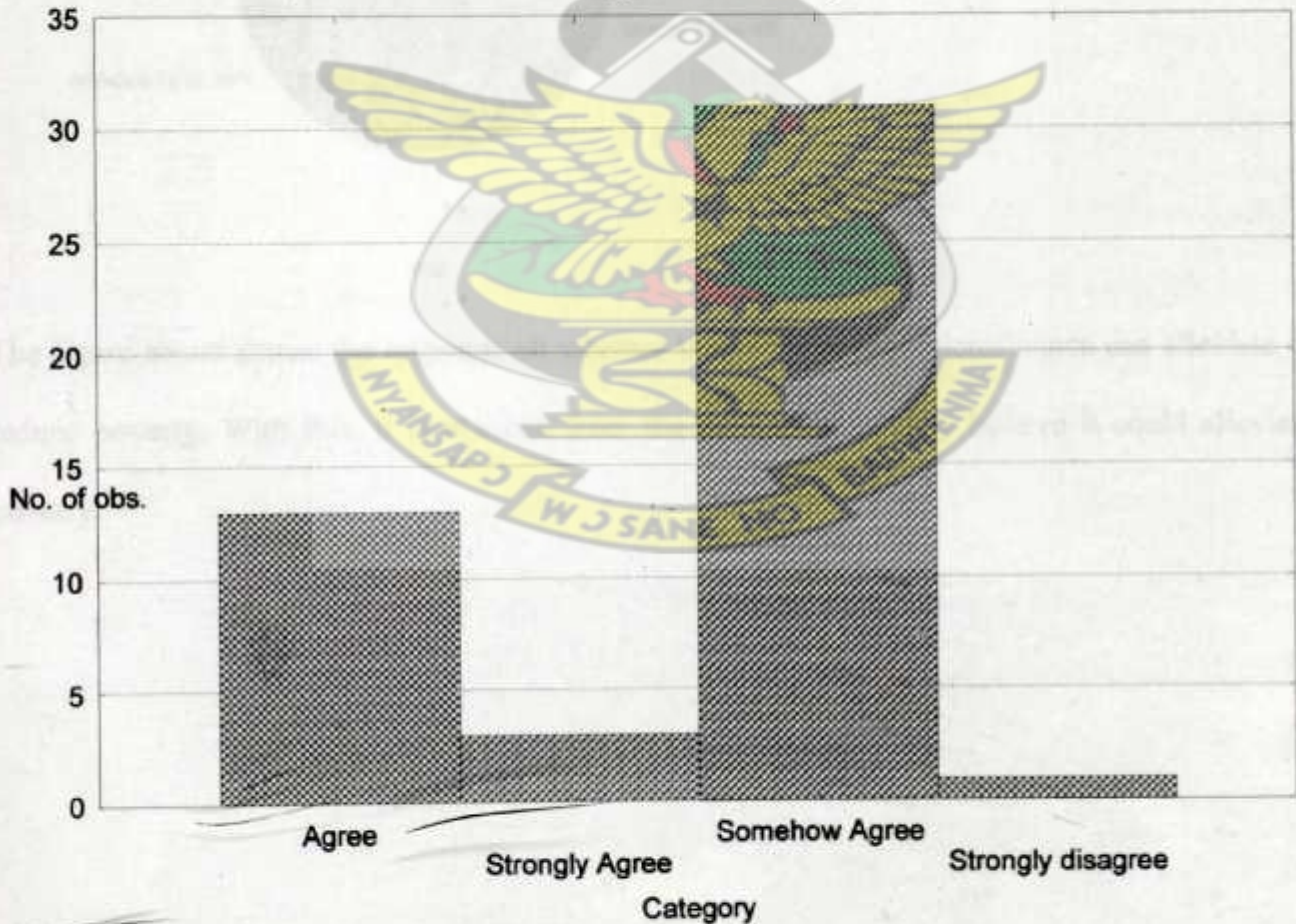


In the diagram above, 42 representing 84% of the market under consideration says they should not collect any collateral because it exerts so much pressure on them. Secondly, it makes it too difficult to access the loans.

It was realized that delinquent clients would be made to pay their loans under the stretch of their collateral. The study now turned attention to measure the respondent's views on the accessibility of the MFIs.

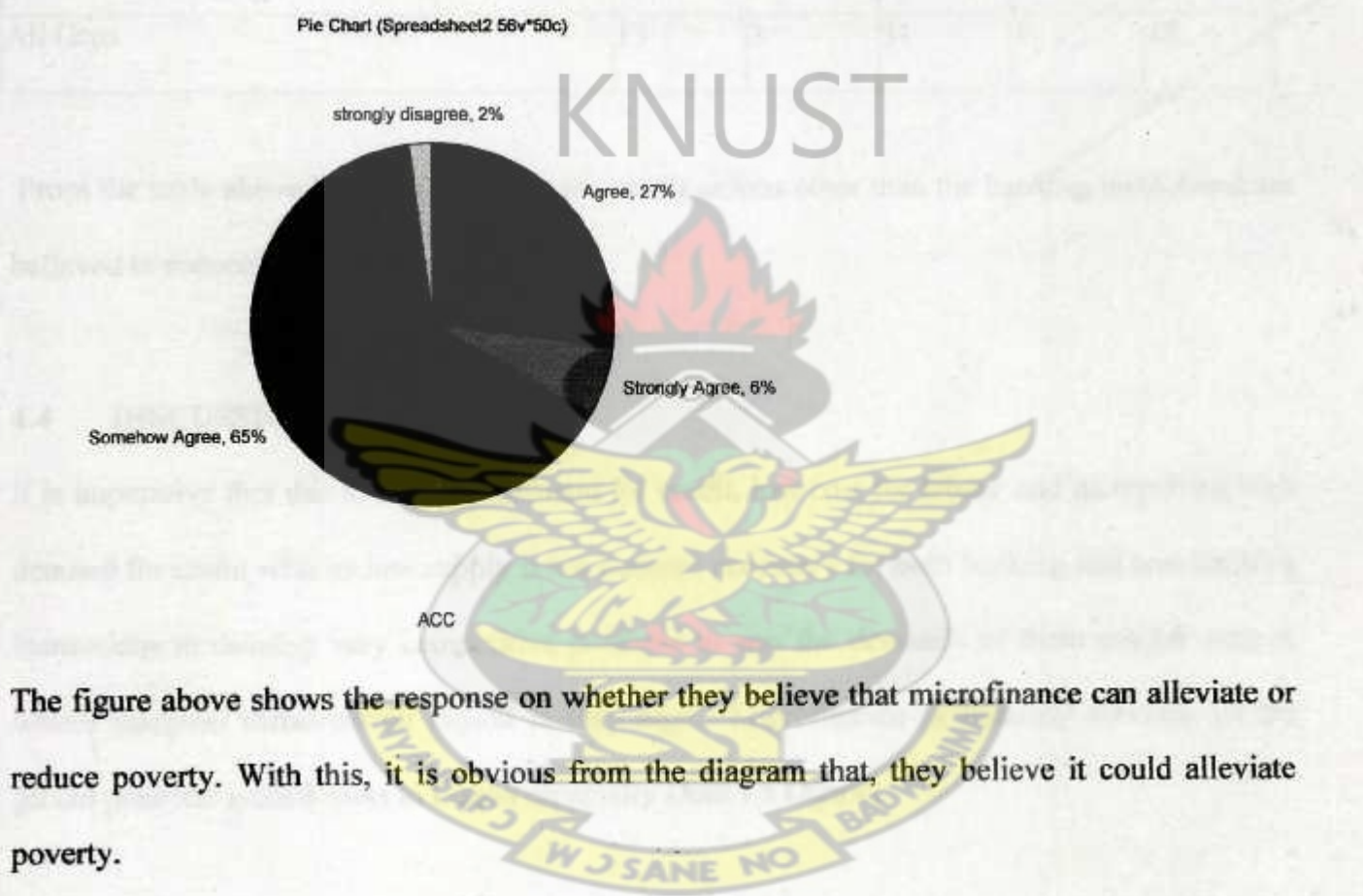
KNUST

Figure 12



From the table above, majority of the respondents believe that they somehow agree to the fact that micro finance in the District is accessible. The study asked if the microfinance institutions can help to alleviate poverty. This was necessary to consider because it measures how the people actually see the microfinance institutions.

Figure 13





**Table 7: The Institution that can Reduce Poverty.**

<b>RMF1</b>	<b>ACC</b>	<b>ACC</b>	<b>ACC</b>	<b>ACC</b>	<b>Row</b>
Twifoman Rural Bank	4	0	10	0	14
Upper Amanfi Rural Bank	3	0	9	1	13
credit Union	6	3	12	0	21
All Grps	13	3	31	1	48

From the table above it is also clear that the credit unions other than the banking institutions are believed to reduce poverty in the study are.

#### **4.4 DISCUSSION**

It is imperative that due to the high demand for credit, low cost for labour and its repelling high demand for credit with its low supply it has become necessary for both banking and non-banking institutions to develop very competitive products to win the demands of these market women whose marginal turnovers on capital is very high. Microfinance- a financial services for the global poor has gained roots in Ghana especially Dunkwa District.

The research seeks to find out the impact of microfinance on the poverty reduction amongst Dunkwa Central Market Women. It is then evident that the MFIs has become the financial backbone to the growth and development of the business in the district. Accounting for a high percentage of the exports, employing over 70 percent of the available workforce and generating 56.2 percent of its private sector turnover, most other

countries. Indeed, a recent study has found that Irish entrepreneurial activity is among the highest in the world and exceeds that of most other European countries (Fitzsimons *et al.*, 2003).

Research has shown that access to external finance is the most significant factor contributing to the growth of small firms (Brown *et al.*, 2003). Furthermore, the majority of market women have been found to be heavily dependent on bank finance and the women at the Dunkwa central market are no exemption. In comparison to 37 other countries, Ghana was also ranked for availability to entrepreneurs of formal finance sources but scores weakly for informal, non-institutional forms of investment (NCC, 2003). Generally, Ghanaian SMEs are heavily dependent on these informal sources, in particular bank finance.

With these, three major source e exist. These includes: Twifoman Rural Bank, Upper Amanfi Rural and credit Union. The impact of the MFI's in the life's of these people was looked at in details based on the proximity of the products to the targeted population. Withy this it was realized from the research that mostly all the MFI'S are said to be far away from the benefactors of the schemes.

The major and immediate challenge for Ghana is providing employment for low-skill labour. The declining job opportunities in Ghana, the prevalence of low-skill and unskilled labour force in the economy, and the tendency of the government to reduce its role as primary employer made the promotion of small firms a primary source of



employment creation. Small businesses contribute not only to income generation but also income distribution.

There is therefore the need for the microfinance institutions to strengthen the efforts at helping the average poor to be economically exhumed. This can be successful by creating more financial institutions around the area to make them more accessible to all and sundry. This in effect will reduce transaction cost of the clients especially to those who have to travel to the business centers.

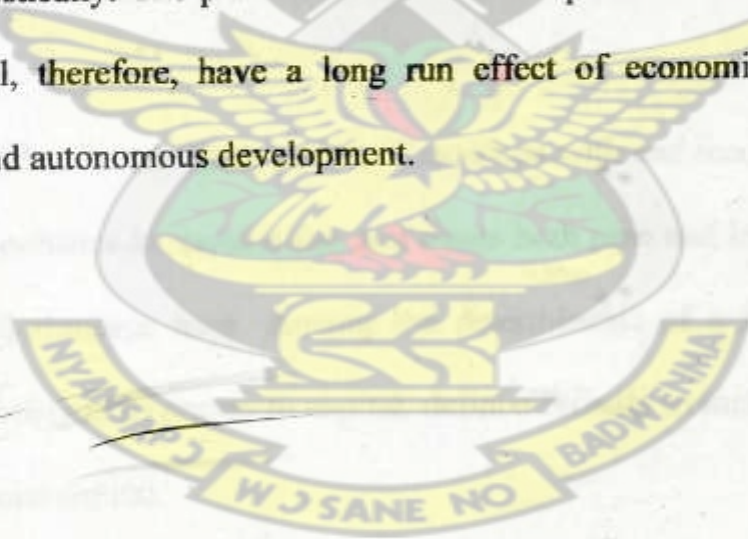
Secondly, the microfinance institutions should reduce their interest rate. High interest rates cause people to save less. Incomes so generated are recycled to the same financial institutions with less benefits to the poor. Some even use the money they have gained or they have collected to repay their debts.

They should as well consider a favorable repayment period for their clients to really feel the impact. If the repayment period is very short, it exerts so much pressure on the customer

Business education and training should also be strengthened in order to ensure a quality client. Where the business of the client is of quality there would be low risk of business portfolio which will also cause them to directly feel the impact in their business.

Issues concerning collateral should also be considered so as to ensure a wider coverage of the operations of the institutions. Many are not prepared to join the train of microfinance because it is becoming more 'bank like'. If we device a different form of collateral like the group guarantee, it will assist those without collateral to also be part of the micro-business world.

Enhancing the poverty alleviation potential of small firms through financial, regulatory and managerial assistances will eventually reduce dependency on foreign markets. This will not only save foreign exchange but also reduce the impact, which fluctuations of foreign exchange receipts will have domestically. The promotion of the development of small- to medium-sized enterprises (SMEs) will, therefore, have a long run effect of economic independence, and sustained sovereignty and autonomous development.





## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.0 CONCLUSION

The study aimed at ascertaining the impact microfinance had on poverty of women in general and market women in the Dunkwa central market to be specific. The study covered areas of trade such as petty traders in foodstuffs, soups, locally brewed alcoholic drinks, cooking utensils and other petty products on the market.

A livelihood is considered to be sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base. Among the determinants of a household's ability to achieve increased well-being is its access to capital, defined broadly to include natural, physical, financial, human and social capital.

As a policy intervention, micro-finance seeks to:

- reduce poverty by increasing the access of poor people to savings and credit so they can invest in physical capital to increase the productivity of existing assets;
- provide working capital for the purchase of inputs;

- allow for consumption smoothing, enabling major expenses such as health treatment or funeral costs to be met.

Micro finance therefore forms part of an asset-based community development strategy with the following features:

- **Savings:** With savings facilities available to them, the poor are able to accumulate cash surpluses, which could be turned into productive assets and make a significant contribution to household livelihood strategies. Cash surpluses can also create a barrier for the foreseen and unforeseen expenses of the future, thus reducing vulnerability to debt traps.
- **Transaction services:** Given the legacy of the migrant labour system, transaction services are an especially important issue in Ghana.
- **Credit:** In the right circumstances credit can assist the poor in building assets and 'smoothing' the up-and-down nature of their income. Like savings, credit can assist in converting very small, irregular incomes into a large lump sum, which can augment livelihood strategies and reduce vulnerability.
- **Insurance:** Like savings and credit, properly managed insurance services can 'smooth' income. People have organized themselves into popular insurance enterprises in the form of burial societies, which indicates the importance of insurance services to the poor.

## 5.1 RECOMMENDATION

The study indicated that most of the market women contacted had a major problem in securing collateral for loan. This was evident in the fact that, the respondents preferred



more of the credit unions than loans from the bank which adhered to a strict provision of collateral security, which was very difficult for them. Some also did not know how to get the collateral security to secure the loan.

With the credit unions which required initial deposit to be made before loans are disbursed, some market women also saw it as a difficulty as it was difficult raising that initial deposit and also they had problems with the six months savings period before one could secure a loan. Other major problems encountered also involved the Unions and Banks tossing the applicants up and down before a loan is granted and paid, causing a major drain, both financial and physical to the loan recipient.

These barriers affect the market women, although there is a great inclination to the benefits such financing schemes are to them. To improve and increase the impact of micro financing on these individuals the following recommendations have been forwarded;

1. Improve and intensify public education on access to microfinance schemes and how they can access them. These educations should be in their local languages so that the market women will be able to understand and make use of them.
2. A comprehensive mode of payment must be introduced and communicated to the market women so they are aware of the payment modes of any loan received from these financing schemes.
3. Microfinance institutions were found out to charge interest rates between 20% to 28%, with most of them charging on the high side. It is therefore recommended

that a closer look is taken at the interest rates to reduce it; the market women will be able to afford them.

4. The interest rate method of calculation should be redesigned for an effective implementation and understanding by the market women.
5. The microfinance institutions can also employ the door – to – door approach of reaching their clients to increase the information spread or the customer base, to provide convenience for the market women, who complain of joining long queues before making payments at their offices. This will also help improve their customer base.
6. The financing institutions should also consider increasing their loans packages so the market women can access high loans to sustain them.
7. The financing institutions should find ways of designing other forms of collateral items and also design a proper procedure of the repayment of loans
8. Ways should be developed to provide loans for individuals just as those designed for groups and association.

#### **5.1.1 The Role of the State**

There is a long history of state involvement in the provision of credit to the poor through retail institutions. In many instances state retail institutions have failed. Among the reasons for this is that the state is often regarded by its citizens as providing entitlements. In our own case, for example, the state interacts with millions of poor people through the welfare system. Where the state has sought to extend credit directly, it has been the experience of many that the wires of welfare 'entitlement' and credit extension get



crossed, resulting in large debt defaults from citizens that equate state-led credit extension to welfare handouts.

On the other hand, the state could play a greater role in the extension of the infrastructure for savings and transacting facilities. This could be through an existing state infrastructure, such as the Post Office, or through an enhanced set of institutions functioning in the Multi-Purpose Community Centres.

Rather than establishing institutional capacity, the state could intervene by providing some form of subsidy to lower the cost of savings and transaction services to the poorest clients. Through such mechanisms the state could play an important role in realizing the challenges of access posed by the financial sector reforms, like the Ghana Poverty Reduction Strategy (I & II).

The state must also play a key role in the coordination of institutions to create synergy across the developmental micro finance sector. Lack of coordination is a key weakness in microfinance efforts until now.

Linked to the above is the role of the state in mobilizing and directing social capital towards the women, developmental micro-finance sector. This includes the institutions directly accountable to the state, the para-statal development finance institutions, as well as non-state actors, including official and private donors. In other words, in addition to the new initiatives like EDIF and Venture Capital Fund, there already exist a large

number of other institutions in both the public and private sector, which require improved coordination.

Last, but perhaps most importantly, the state needs to create a regulatory environment that supports the development of women poor finance. This involves a delicate balancing act between the need to police the negative tendencies that are bound to arise among profit seeking agents, while at the same time creating the regulatory space for development-oriented interventions to significantly upscale their work.

To fully benefit from any microfinance institution and its packages, the following must be evident in the communities;

1. Community education
2. Community training
3. Community health care
4. Community water supply
5. Community sanitation
6. Community income generation
7. Community tree plantation
8. Community disaster mitigation
9. Community cultural activities
10. Community supporting research
11. Community awareness generation
12. Cooperation with local government institutions.



For much of its history, microfinance has primarily been conducted as an act of faith and is logically and intuitively appealing. It provides access to capital and other financial services and can smooth and soften the financial impacts of crises (such as illness) and stabilize borrowers' income. It enables people to expand their businesses, increase their profits, and improve their lives. For many observers, enabling the poor to gain access to capital and to reduce the impact of crises is enough. The provision of financial services to the poor is certainly an important contribution of microfinance. But, for many who want to expand microfinance and demonstrate the payoffs to capital providers in either the for-profit capital markets sector or the non-profit philanthropy sector, more conclusive evidence of impact is desirable or necessary. If microfinance is to become a larger force in alleviating poverty and to provide more scalability, better evidence of the payoffs of microfinance investments and of the impact on both the economic and social welfare of the borrowers is required.

This study was not exhaustive and has brought to bare many areas of interests in the microfinance operations and the impact on the people. As a result, the following areas are being recommended for further research;

1. The study into how women manage their microfinance attained resources
2. The impact of social factors in micro financing schemes.

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## APPENDIX

### KNUST SCHOOL OF BUSINESS COLLEGE OF ART AND SOCIAL SCIENCES

#### Questionnaire

Dear respondent,

This study is aimed at investigating the impact of microfinance on the poverty reduction amongst Dunkwa Central Market women. I will like to assure you that any information provided will be treated with the highest level of confidentiality.

#### PROFILE

1. Area of Trade .....
2. Marital Status: Single ☐ Married ☐ Divorced ☐ Widow ☐
3. Number of children .....

#### MICROFINANCE

4. What are the various microfinance institutions available in your District? (List them)  
a. ....  
b. ....  
c. ....  
d. ....
5. Which one(s) do you receive finance or assistance from?  
a. ....  
b. ....  
c. ....
6. What is the proximity of the institution to your place of business?  
Very Close ☐ Slightly Close ☐ Close ☐ Slightly Far ☐ Very Far ☐
7. How did you hear about the microfinance institution?

Radio ☐ Television ☐ Friends ☐ Church ☐ Business Associates ☐  
Meetings ☐ Any other, please specify? .....

## EFFECTIVENESS

8. How much do you get from your source?

<5m Cedis ☐ 5m -10m Cedis ☐ 10m – 20m Cedis ☐ 20m -50m Cedis ☐  
above 50 Cedis ☐

9. How much interest rate is charged on the amount received? <5% ☐ 5-10% ☐  
11-15? Others, specify.....

10. Is it difficult to access loans from the source of your Finance? Yes ☐ No ☐

11. What are some of the difficulties you encounter when accessing the loan?

- a.....
- b.....
- c.....
- d.....

12. Has there been a situation where the money is used for a different project apart from what you intended to use it for? Yes ☐ No ☒

13. Do they educate you on what to use the money for? Yes ☐ No ☐

14. If yes what has been the impact on your livelihood? ☒

Not encouraging ☐ Somehow Encouraging ☐ Encouraging ☐  
Very Encouraging ☐

15. Do micro finance institutions take collateral before loans are given? Yes ☐ No ☐

16. What items do they take as collateral security?

- a.....
- b.....
- c.....
- d.....

17. Do you support the assertion that collaterals should be taken before loans are disbursed to you? Yes ☐ No ☐

18. How are you affected by this issue of collateral by the microfinance institutions?



- a.....
- b.....
- c.....

19. Are you threatened by any legal action during the repayment periods? Yes ☐ No ☐

20. Will you say that the micro finance institutions are accessible?

Strongly disagree ☐ disagree ☐ somehow agree ☐ agree ☐ strongly agree ☐

21. What is the impact of these loans and financial assistance on your personal life?

- a.....
- b.....
- c.....
- d.....

✓ 22. Would you say that microfinance institutions can alleviate or reduce poverty?

Strongly disagree ☐ disagree ☐ somehow agree ☐ agree ☐ strongly agree ☐

23. Is the outreach and accessibility of the selected Microfinance Institutions adequate for poverty reduction? Yes ☐ No ☐

24. If not, how can the Microfinance Institutions be organized to enhance its outreach and accessibility?

- a.....
- b.....
- c.....
- d.....

25. What are their overall impacts to poverty reduction in the market?

- a.....
- b.....
- c.....
- d.....

26. Do you have any recommendations to make?

.....

.....

.....