THE IMPACT OF MICROFINANCE ON POVERTY ALLEVIATION: A CASE STUDY OF OTUASEKAN RURAL BANK.

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DECLARATION

I hereby declare that this thesis is my own work towards the MBA and that, to the best of my knowledge, it contains no 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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ABSTRACT

In the quest for solutions to the country's development challenge and poverty alleviation, microfinance is becoming one of the most popular option as credit has been identified as a barrier facing the poor. This case study was designed to assess the impact of Microfinance on Poverty alleviation. A purposive sample of seventy five (75) Microfinance clients and Two (2) management staffs were administered on an interviewer assisted questionnaire. Result findings revealed that microfinance alone does not alleviate poverty as there were fluctuations in Income caused by other significant mediating factors. The Bank on the other hand was practicing more micro crediting to the neglect of other microfinance factors. Also the poorest of the poor were not reached as they were seen as highly risky. With regards to women empowerment, most women felt empowered economically and socially but not politically. Microfinance was seen as treating the symptoms while the real causes of poverty remain. One therefore, needs to be very careful in over-emphasizing the role of Microfinance for poverty alleviation since it is not a panacea for poverty alleviation.

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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND

Poverty remains a matter of growing concern in many developing countries of the world. Ghana has focused on poverty reduction as the core of its development strategy. Poverty is highest among the self-employed households cultivating agricultural crops, and has decreased only slightly compared to the self-employed households engaged in export-crop agriculture and the wage employees in the public and private sectors. The Government prepared a *Development Strategy for Poverty Reduction* in 2000 and has since prepared the *Ghana Poverty Reduction Strategy (GPRS 11): An Agenda for Growth and Prosperity*. The main goal of Ghana's Growth and Poverty Reduction strategy (*GPRS II*) is to ensure "sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment". The intention is to eliminate widespread poverty and growing income inequality, especially among the productive poor who constitute the majority of the working population. According to the 2000 Population and Housing census, 80% of the working population is found in the private informal sector. This group is characterized by lack of access to credit, which constraints the development and growth of that sector of the economy.

The overall policy framework for microfinance is informed by the poverty reduction strategy, which seeks to balance growth and macroeconomic stability with human development and empowerment in such a way as to positively reduce the country's poverty levels in the medium term. The main purpose of microfinance is to break the vicious circle of 'low income low investment-low profit' by inserting capital from outside into the economic life of poor people.

Micro finance has become a new reality in the world of development discourse and financial intermediation. Broadly speaking, micro finance means providing financial services to the poor, long excluded by mainstream banking and finance market. Neoliberals support it as it does not disturb the *status quo*. Commercial banks see in it a new profitable area of credit with a high repayment rate in a world of mounting non-performing assets and sub-prime hazards. Many governments welcome it as a less burdensome manner of fighting poverty.

The most important economic rationale in bringing financial services to the door steps of the poor households is the economy in the transaction costs. For formal banks, it will be costly to mobilize the small savings of the poor families lying widely scattered. Equally prohibitive is the cost to the conventional banks in financing a large number of these families who require credit frequently and in small volume and that too not backed by collateral securities.

Microfinance was adopted by the government of Ghana as a major tool for reaching the unbankable poor who are higher in rural areas (52%) than in urban areas (23%).

Microfinance is considered to be an effective tool in tackling poverty and achieving Millennium Development Goals in the world. Thus, international financial organizations, led by the World Bank, support the development of microfinance institutions throughout the world. Sometimes microfinance is called banking for the poor. The dynamic growth of the microfinance industry has been promoted not only by market forces but also by conscious actions of national governments, Non-Governmental Organizations (NGOs), and the donors who view microfinance as an effective tool for eradicating poverty. The powerful push behind this huge and increasing support for microfinance indicated that national economic and social impacts are significant and it needs to be examined more closely.

Unlike other research about the development of microfinance in Ghana, this research mainly focuses on microfinance's effects on living standard of the poor with a Case of Otuasekan Rural Bank. The bank has achieved unprecedented growth in its operations. In December 2005, the ARB Apex bank limited ranked the Bank as the sixth strongest Rural/community Bank in Ghana. The bank attained the 20th position out of 100 top companies in Ghana, showing an impressive and remarkable performance.

1.1 PROBLEM STATEMENT

The poor in rural areas are in most cases not reflected in the macroeconomic interventions and because of this scenario poverty is growing. They operate mainly in the informal economy where the whole context for their lives and economic activities do not produce enough surpluses to lift their standard of living. As a consequence they lack the ability to generate incomes, to save, to start economic activities, and access to credit is also heavily restricted due to lack of collateral. The poor are traditionally disregarded as "unbankable" and "uncreditworthy".

Today microfinance and micro credits are concepts that are frequently used when talking about poverty reducing actions. Micro credits are believed to help people lift themselves out of poverty. There have been several studies discussing whether the microfinance institutions have an impact on poverty or not. Supporters of microfinance contend that small loans fuel economic self-sufficiency.

Critics, in contrast, contend that the world's most vulnerable people are often in no position to take on the risks of entrepreneurship. They cite research showing that microfinance clients have been known to scrimp on food, sell their furniture, borrow from loan sharks, and take second jobs to pay off their loans; that husbands, sons, and fathers-in-law often take control of women's loans; and that, overall, microfinance fails to find its way to the world's poorest people.

Given the complex nature of poverty together with the current Microfinance intermediation approach, it is however, becoming increasingly difficult to judge whether such programs should be advocated as a means of poverty alleviation. Are the poor a collection of budding entrepreneurs, waiting for salvation from credit agencies, which on receipt of credit, will develop successful micro enterprises and leave poverty forever? Is Microfinance a solution to poverty alleviation and How? Does Microfinance leads to economic, social and political empowerment among women? What really entails Microfinance? Are the practices of Microfinance institutions more profit centered or poor centered? Is the poor being reached at all? Are there any mediating factors between Microfinance and Poverty?

Also in spite of the fact that other studies have attempted to assess the outreach and poverty impact of such schemes, However, in the academic development community there is a recognition that perhaps we know much less about the impact of these programs than might be expected given the enthusiasm for these activities among donor and policy-making circles. Exactly what proportion of income and other effects on the beneficiaries of micro credit can actually be attributed to the programs themselves? For a strategy to be viable, it should have a positive impact on what it is up to do. Consequently, viability of Micro Finance can be measured in terms of its actual impact on the intended beneficiaries, who are assumed to be 'poor'.

1.2 OBJECTIVES OF THE STUDY

The specific objectives of the study are:

1. To ascertain whether microfinance impact on poverty by increasing Income levels
2. To assess whether there are any mediating factors between microfinance and Poverty
3. To assess the practices of microfinance at Otuasekan Rural Bank
4. To assess whether the poorest of the poor (destitute) is reached
5. To assess the Impact of microfinance on women empowerment

Findings on the first aim can be seen from pages 41 to 45. While the second aim can be inferred from pages 45 to 50. The third aim can also be inferred from pages 50 to 54. Also the fourth aim can be inferred from pages 54 to 56. The fifth is at pages 56 to 59, and lastly the sixth can be inferred from pages 66 to 71.

1.3SCOPE OF THE STUDY

This study is about the impact of Microfinance on Poverty alleviation. The two major variables involved in the study are **Microfinance** and **Poverty.** The main purpose of the study is to understand the success rate, and the social and economical change created by micro-finance among the poor. I found that the issue may be approached from two different angles.

Firstly from the clients' perspective- that is how the poor people involved with microfinance judge the impact of it in their lives and what is their understanding of development gained by it. And it can be also approached from the perspectives of the Institution (Otuasekan Rural Bank) working with microfinance- how they see the impact of microfinance on these people's lives and how they look at their achievement.

The research was conducted at Microfinance department of Otuasekan Rural Bank. Interviews were conducted on both Management and seventy-five existing Clients of Microfinance in the Bank. The method of data collection were from both Primary and secondary sources. Literature review sources were from mainly related research works and articles.

1.4 METHODOLOGY

This case study is based on primary (direct) and some secondary (literature reviews) sources. A self administered questionnaire (interview) was employed for this research. Interviews were conducted on both Management and existing Clients of Microfinance at the Otuasekan Rural Bank. Since the Bank organizes Group form of Lending for Micro clients, a Purposive sampling technique was necessary for a random sample selection of seventy five(75) microfinance clients and two (2) management staffs. With the use of SPSS, data were analyzed into charts and frequency tables. Simultaneously, Gordon's model was used in determining the percentage growth in average Incomes.

1.5 SIGNIFICANCE/JUSTIFICATION OF THE STUDY

Impact assessment of microfinance interventions is necessary, to demonstrate to donors and stakeholders that their interventions are having either a positive or negative impact.

The study will also allow for learning within Micro Finance Institutions so that they can improve their services and the impact of their projects.

Moreover, it will establish if microfinance alleviate poverty or whether there are other mediating factors.

This study will also serve as a basis for giving concrete recommendations to both policy makers and practioners about better practices of Microfinance.

1.6 LIMITATIONS OF THE STUDY

The Clients were mostly interviewed on the Bank's premises- thus at a time that they were coming for subsequent loans. Their responses might have been influenced by the presence of the Loan Officers.

The other problem with the research is that, it tends to focus on a given specific locality and a small client group like in the case of Otuasekan Rural Bank. It is very difficult to generalize or make reliable conclusions that reach across borders or the whole country in income levels or socio-economic status. The conditions in Otuasekan may be favourable for a successful microfinance industry which may not necessarily be the case in Kassena-Nakana located in northern Ghana. It is still a big challenge in measuring the impact of microfinance intervention because the data may not be reliable. However there is still some skepticism even if good data may be obtained that allows for some analysis of the impact of microfinance.

CHAPTER TWO

REVIEW OF LITERATURE

2.0 Introduction

This chapter consists of review of relevant literature and operational definitions of terms.

2.1 Definition of Microfinance

Microfinance, according to Otero (1999, p.8) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services.

Successful microfinance appears to be defined by three main characteristics: sustainability; outreach; and impact (Zeller et al; 2002).

Sustainability implies that the costs are covered by income. Operational self-sufficiency is usually said to be achieved when interest income and fees ≥ operating costs + costs of loan principal lost to default + depreciation of fixed assets. Financial self-sufficiency implies that the costs of capital are also covered by income. The issues of sustainability and of subsidies for microfinance are sometimes hotly debated. Some observers argue that microfinance for the poor has overriding social objectives that justify subsidies for the poor. Others maintain that poor clients are willing and able to pay rates of interest high enough to cover the high transaction costs of microfinance and even the cost of capital. There are enough examples of self-sufficient microfinance institutions and programmes to argue against subsidies. Moreover, subsidies are inherently unstable, create dependency and contribute to inefficient implementation. The bias of this paper is that microfinance can and should be self-sufficient. Subsidies for the poor may indeed be socially Justified, but they should be transparent and support provision of basic infrastructure or basic health and education services. Subsidies should not interfere with or distort a microfinance project. Microfinance institutions and projects should exhibit the same financial responsibility that they demand from poor clients. **Outreach** indicates whether the microfinance services are actually serving poor, or the poorest people; how many people are being reached, and the quality and variety of microfinance services actually reaching target groups. **Impact**, or moving poor households and Individuals permanently out of poverty, is the ultimately the objective of microfinance services. Impact has dual dimensions. It means not only moving people above the poverty line in a given year, but building their capacities to continue increasing assets and income.

2.2 Microfinance and microcredit.

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. According to Ansah (1999), "microcredit refers to small loans, whereas microfinance is appropriate where NGOs and Micro finance institutions (MFIs) supplement the loans with other financial services (savings, insurance, skills training etc)".

2.3 Definition of a Microfinance Institution

A microfinance institution (MFI) acts as a bank for the poor. In some cases, an MFI actually is a bank, or can become one, but usually it is an NGO or governmental program aimed at poverty alleviation. The purpose of microfinance is to provide financial loans to the poor that are not made available to them through the traditional banking system (Brandsma and Chaouli 1998:1). These loans can be as tiny as $50, and are typically used by the client to start a small business. Because microfinance institutions operate primarily (though not exclusively) in the Third World, they are faced with unique difficulties; namely, lack of collateral and lack of infrastructure or mobility. Consequently, MFIs have adopted several innovative practices to accommodate for these difficulties. These practices are the use of village banks, trust and group lending, programs focused on women, and high interest rates.

2.4 THE FINANCIAL SYSTEM IN GHANA

The financial system in Ghana falls into three main categories: formal, semi- formal, and informal (Steel and Andah ; 2003):

· **Formal financial institutions** are those that are incorporated under the Companies Code 1963 (Act 179), which gives them legal identities as limited liability companies, and subsequently licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 (PNDCL 225) or the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328) to provide financial services under Bank of Ghana regulation. Most of the banks target urban middle income and high net worth clients. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchment area, and their minimum capital requirement is significantly lower. Some collaborate with NGOs using microfinance methodologies. Among the nine specified categories of non-bank financial institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies. One leasing company has opened a micro-leasing window.

- Non Governmental Organizations (NGOs) and the Credit Unions (CUs) are considered to be the **semi formal system**, in that they are formally registered, but are not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty focus leads them to relatively deep penetration to poor clients using microfinance methodologies, though mostly on a limited scale. They are not licensed to take deposits from the public and hence have to use external (usually donor) funds for micro credit. Credit Unions are registered by the Department of Cooperatives as cooperative thrift societies that can accept deposits from and give loans to their members only. Although credit unions are included in the NBFI Law, BOG has allowed the apex body Ghana Cooperative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.

- The **informal financial system** covers a range of activities known as *susu*, including individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" run by an operator. It also includes moneylenders, trade creditors, self help groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under Moneylenders Ordinance 1957.

The commercial banking system, which is dominated by a few major banks reaches only about 5% of households, most of which are excluded by high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the rural banks, savings and loans companies, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies. The assets of RCBs are nearly 4% of those of the commercial banking systems, with S&Ls and CUs adding another 2%.

The term "rural and micro finance institutions" (RMFIs) is used to refer collectively to the full range of these institutions – though recognizing that they use different methodologies to reach different (albeit overlapping) clientele among farmers, rural households, the poor, and microenterprises, and hence that different regulatory and supervisory instruments may be appropriate.

2.5 Rural and Community Banks

The Rural and Community Banks are unit banks owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation in the rural areas. Rural Banks (RBs) were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The number expanded rapidly in the early 1980s in response to the demand for rural banking services created by the government's introduction of special checks instead of cash payment to cocoa farmers. The small numbers of rural outlets of commercial banks were woefully inadequate to meet the demand to cash these checks, let alone provide other banking services, creating undue hardships on farmers who often had to travel long distances or spend days at the banks to cash their checks. More RBs and agencies were, therefore, hurriedly opened to help service areas without banking facilities. (Steel and Andah ; 2003)

2.6 THE POVERTY CONCEPT

The definition of what is meant by poverty and how it is measured and who constitute the poor are fiercely contested issues. The World Bank defines poverty as the state of living on less than $1 a day (World Bank 2000/2001).

In the poverty debate, stands the question whether poverty is largely about material needs or whether it is about a much broader set of needs that permit well-being. According to Sida (2005),"Poverty has a multiple and complex causes. The poor are not just deprived of basic resources. They lack access to information that is vital to their lives and livelihoods, information about market prices for the goods they produce, about health, about the structure and services of public institutions, and about their rights. They lack political visibility and voice in the institutions and power relations that shape their lives. They lack access to knowledge, education and skills development that could improve their livelihoods. They often lack access to markets and institutions, both governmental and societal that could provide them with needed resources and services. They lack access to and information about income-earning opportunities".

Hulme and Mosley (1996:105) define poverty as not purely about material conditions. It also refers to other forms of deprivation, and the effects of innovative financial services on those who suffer from social inferiority, powerlessness and isolation are considered.

In order to discuss microfinance as a tool for poverty alleviation, it is important to understand the concept of poverty both at a micro and a macro level. It is not enough to define poverty in terms of basic needs only because this is likely to omit other important components therefore focusing at poverty as a single sided problem. It is necessary for microfinance institutions (MFIs) to embrace broad aspects of economic development.

According to Chambers (1983: 112) the poor are poor because they are poor. Their poverty conditions interlock like a web to trap people in their deprivation. Poverty is a strong determinant of the others. The causes of poverty are many and must be attacked from all fronts to save the poor from the poverty trap. Poverty contributes to physical weakness through lack of food, small bodies, malnutrition leading to low immune response to infections and inability to reach or pay for health services. Chambers has recorded the many forms of deprivation that very poor people identify themselves as experiencing that are not captured by income-poverty measures. These include,

1. Poverty is a strong determinant of the others. Poverty contributes to physical weakness through lack of food, small bodies, and malnutrition. There are inability to pay for health services, to isolation because of inability to pay school fees for children to go to school, to vulnerability through lack of assets to pay expenses or to meet contingencies and powerlessness because of lack of wealth goes with low status.

2. The physical weakness of a house hold contributes to poverty in several ways: through the low productivity of weak labour through an inability to cultivate larger areas or work long hours, through lower wages paid to women and to those who are weak. It sustains isolation because of lack of time or energy to attend meetings.

3. Isolation (lack of education, remoteness, being out of contact) sustains poverty, services do not reach those who are remote, illiterates cannot read information of economic value, and find it difficult to obtain loans. Isolation means lack of contact with political leaders and therefore misses government development policies.

4. Vulnerability is part of the many links. It relates to poverty through the sale or mortgage of productive assets, to physical weakness because to handle contingencies, time and energy have to be substituted for money, to isolation through withdrawal.

5. Powerlessness contributes to poverty in many ways, not least through exploitation by the powerful. It limits or prevents access to resources from the state, legal redress for abuses and ability to dispute wage or interest rates, and only feeble influence on government to provide services for the poorer people and places. They are powerless to demand what is meant for them and cannot attract government aid, schools, good staff or other resources.

2.7 POVERTY AND MICROFINANCE

In principle, microfinance can relate to the chronic (non-destitute) poor and to the transitory poor in different ways. The condition of poverty has been interpreted conventionally as one of lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as human (access to education), natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial (access to credit) (World Bank 2000:34). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial institutions, in addition to the various complexities and high costs involved in dealing with large numbers of small, often illiterate, borrowers. The poor have thus to rely on loans from either moneylenders at high interest rates or friends and family, whose supply of funds is limited. MFIs attempt to overcome these barriers through innovative measures such as group lending and regular savings schemes, as well as the establishment of close links between poor clients and staff of the institutions concerned. The range of possible relationships and the mechanisms employed are very wide.

The case for microfinance as a mechanism for poverty reduction is simple. If access to credit can be improved, it is argued, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on.

CASES FOR POSITIVE IMPACT OF MICROFINANCE ON POVERTY

In fact, microfinance has been proven to be an effective method of poverty alleviation (Murdoch and Haley 2002:5). Clients who participate in microfinance programs have enjoyed increased household income, Increased Asset acquisition, better nutrition and health, the opportunity to achieve higher education, a decrease in vulnerability to economic shock, greater empowerment, and in some cases, the ability to completely lift themselves and their families out of poverty.

Increase in Income

There is overwhelming evidence to demonstrate that families that participate in microfinance programs enjoy an increase in household income (Murdoch and Haley 2002:5; Simanowitz and

Walter 2002:20). They also benefit from consumption smoothing and the ability to sustain gains over time (Murdoch and Haley 2002:5; Simanowitz and Walter 2002:23).

One of the early and most widely cited of the poverty impact studies is Hulme and Mosley (1996). It employs a control group approach looking at the changes in income for households in villages with microfinance programs and changes for similar households (for example, in terms of initial income, gender, education, and location) in non-program areas. As far as possible, the control groups are drawn from households eligible for loans who have been approved for loans by the institutions concerned, but who have not yet received a loan. Programs in a number of countries are considered including the Grameen Bank in Bangladesh and the Bank Rakyat Indonesia (BRI).

Simanowitz and Walter, in a research article entitled "Ensuring Impact", site a case study conducted by CRECER, a Bolivian microcredit bank, that reads: "Increased income was reported by 66 percent of clients…Participants most commonly attributed this improvement to the expansion of their income-generating activity, reduced output costs as a result of buying in bulk or with cash, or the new activities of products made possible by access to credit and selling in new markets" (Simanowitz and Walter 2002:23).

Overall, the evidence is overwhelmingly in favor of microfinance as a tool to increase household income, smooth consumption, and enable the poor to sustain gains over time. Microfinance enables many impoverished families to earn enough income to rise above the poverty line and is therefore an effective method of poverty alleviation.

Better Nutrition

Murdoch and Haley (2002:111-112) conducted an extensive investigation of the effect of microfinance on the realization of the United Nations' Millennium Goals, the first of which is to eradicate extreme poverty and hunger. Their findings were as follows:

• Children's Diet. Researchers from the Noguchi Memorial Medical Institute in Ghana (unpublished research by Dr. Margaret Armar-Klemesu, University of Ghana, Legon) conducted a dietary intake study of children of Credit with Education members and also nonparticipants.

They investigated dietary intake of children 9–20 months old who were in the Ghana follow-up round of data collection. Dietary intake was assessed by the mother's 24-hr recall of all breastfeeding episodes and all meals and snacks consumed by the child on two non-consecutive days. Mothers identified measures used to offer food to the children, how much was offered, and proportions consumed in reference to local measures and fist size. Samples of all foods reported were taken to the lab for calorie and nutrient content analysis using appropriate food composition tables. The study found that the dietary quality of the foods given to participants' children was relatively higher. Also, the estimated caloric intake was significantly higher.

• Children's Nutritional Status. Measurements of the same children in Ghana showed the nutritional status of participants' one-year-olds—both weight-for-age and height-for-age—also significantly improved relative to the children of residents in control communities. For example, the percentage of participants' children categorized as malnourished, based on height-for-age, decreased by eight percentage points between the baseline and follow-up periods, while the percentage of malnourished actually increased in control communities

Higher School Attendance

Many poor children and adolescents do not have the chance to obtain an education because their parents cannot afford to send them to school. The costs of transportation and educational materials are too much for some impoverished families. Adolescents in particular are often forced to drop out of school to find a job to supplement the family income. Microfinance, by contributing to an increase in household income and better financial stability, enables poor families to bear the costs of sending children to school. MFIs are known for encouraging families to keep children in school and in some cases school attendance is mandatory in order to participate in the microfinance program (Murdoch and Haley 2002:113).

Microfinance contributes to increased income, consumption smoothing, the ability of households to sustain gains over time, better health and nutrition, and improvement in school attendance. All of these benefits are interconnected; the improvement of one will invariably have a positive effect on the others. The combined enhancement in all areas of life brings a marked increase in living conditions for the poor and a new message of hope for the eventual eradication of poverty.

Women's Empowerment

In a study on credit with education in Ghana (Dunford 1998), the programme seems to empower women participants economically as they are more likely to own businesses.

In an impact assessment on a similar programme in Bolivia, 67% of women respondents felt an increase in income and as a result they were able to spend more on medicine, clothes and food (MkNelly & Dunford 1999).

A case study of Sinapi Aba Trust, a microfinance institution in Ghana, was conducted in order to determine whether microfinance has an impact on women's empowerment. The study shows that "running a successful business not only contributes to women's improved welfare, it also contributes both directly and indirectly to their empowerment…the increase in working capital is particularly important for women's empowerment…in almost all cases, the increase in capital has given women more options and greater control over their businesses and their lives" (Cheston and Kuhn 2002). Access to credit and business training has helped women expand and improve their businesses, leading to increased respect and decision-making power in the home and community. Advice and peer support has helped women manage their triple roles as mothers, wives, and businesswomen. Education and experience in leadership have helped women become more confident and capable leaders (Cheston and Kuhn 2002).

Freedom From Hunger also conducted a case study on the impact of microfinance on women's empowerment:

In both Ghana and Bolivia, there was evidence that access to the financial and education services had positively impacted women's self-confidence and status in the community. Participants in Ghana rated themselves significantly more confident than did non-participants that they would earn more in the future and that they could prevent their children from getting diarrhea and other illnesses. In terms of involvement in community life, participants in Ghana were taking on more active roles in community ceremonies, such as funerals, and participants in Bolivia were running for and holding offices in local governing bodies. In both countries, participants were significantly more likely to have given others advice both about practices for good health/nutrition and better business (Murdoch and Haley 2002).

Lifts Poor Out of Poverty

The SHARE microfinance institution in Bolivia conducted a study on the economic situation of clients before and after borrowing. Upon joining the microcredit program, 64% of clients were classified as "very poor" and 36% as "moderately poor." In March of 2001 research demonstrated that 7.2% of clients were still classified as "very poor," 56.8% as "moderately poor," and 36% were "no longer poor." The SHARE program was able to lift one third of their clients above the poverty line (Simanowitz and Walter 2002:23).

Supporters of microfinance contend that small loans fuel economic self-sufficiency. They point to the billions of dollars that microfinance institutions (MFIs) such as Grameen Bank, Acción International, and Opportunity International (OI) have given to millions of small-time, impoverished entrepreneurs. They cite research showing that microloans increase household consumption (Khandker 2005), give women more clout in their communities, encourage the use of contraceptives, and improve the nutrition of young children (Goldberg 2004).

Where the poor lack access to credit, savings represents the only way to amass the cash needed for large expenditures such as school fees, home improvements, or funeral expenses. And even for microentrepreneurs who do have access to credit, savings may be the most cost-effective way to fund large purchases. (Datar et.al 2007). To help poor people protect their assets, a few microfinance institutions (MFIs) have started offering deposit services, or microsavings.

CASES AGAINST IMPACT OF MICROFINANCE ON POVERTY

There are many criticisms to the microfinance approach to poverty alleviation.

Indeed, the critics have even questioned whether microfinance alleviates poverty at all.

There are five main arguments against microfinance in the Third World (Tessie Swope 2005):

1. Microfinance does not reach the poorest of the poor.
2. MFIs are rarely, if ever, financially sustainable
3. Microfinance is potentially harmful to women
4. Borrowing may create a heavy debt for some poor families
5. Microfinance is not universal in application

Microfinance Does Not Reach the Poorest

The first reason that microfinance does not reach the poorest of the poor is because of discrimination by the loans officers (Simanowitz 2000; Simanowitz and Walter 2002:36). As with all loan systems, the higher the loan, the greater a profit to be made by the lender. Consequently, loan officers often discriminate against very poor borrowers and instead favor the "richer" poor who can afford to take out larger loans (Wright 2000:262; Simanowitz 2000).

The second reason that microfinance may not reach the poorest of the poor is the pariah status of the very poor (Simanowitz and Walter 2002:36). Just as there are large divides in wealthy countries between the rich and poor, impoverished communities may have social segregation between the poor and the destitute. The destitute, also referred to as the very poor or the poorest of the poor, may be shunned from the rest of society. Sometimes it is discrimination from the "richer" poor that drives the destitute away from society, and consequently, away from MFI programs, but often it is the destitute who segregate themselves (Wright 2000:262; Simanowitz and Walter 2002:36). The very poor, who lack even basic needs, avoid contact with the rest of society out of shame. They may have lice or parasites, they may lack decent clothing, or they may simply be too embarrassed to display their extreme poverty in public. Simply put, microfinance is not always an attractive option to the very poor. A destitute family that struggles every day to survive will rarely have the energy to launch into an ambitious, business enterprise. The poorest of the poor can barely meet basic needs much less run an entire business and they lack the necessary education, management skills, and social networks (Garson 1997:7).

The trouble is that if training were to be provided by the MFI it would cripple the ability of the institution to become financially sustainable (Robinson 2001:73). The exclusion of the poorest from microfinance is not an indication that the poorest cannot benefit from MFI services, but rather, it is an indication of the failure of MFIs to design programs to fit the needs of destitute families (Marcus, Porter, and Harper 1999:10). "Microfinance has tended to exclude those than cannot use the one-size-fits-all services provided. The services that have been developed tend to meet the needs of a particular segment of the client market, and have led to the exclusion of those who cannot use or pay for these services" (Simanowitz and Walter 2002:5).

The use of the weekly repayment schedule, a hallmark of the microfinance industry, has been widely criticized for this reason. It is argued that the income cycles of the poor differ according to the individual business. Some poor families earn income on a weekly basis, others biweekly, and still others, monthly. Demanding that all clients stick to the rigid weekly payment cycle makes microfinance an unattractive option for many poor (Simanowitz and Walter 2002:45;

Marcus, Porter, and Harper 1999:10). MFIs that are inflexible and do not offer a range of services risk losing clients and efficiency

Alternatively, when professional staff operate as loan officers, they may exclude the very poor from borrowing, again on the grounds of repayment risk. In combination, these factors, it is felt by many, explain the weakness of microfinance in reaching the core poor. The sector has responded in a number of cases by establishing special programs for the core or 'ultra poor'. The best known of these are in Bangladesh and involve the well-established institutions of BRAC and ASA. The programs essentially aim to provide a range of services, covering training, health provision and more general social development for the disadvantaged, as well as grants of assets or credits. The ultra poor are encouraged to build up a savings fund and to graduate to conventional microfinance programs. Other variants of this approach involve greater flexibility in repayment terms for the poorest (Fernando 2004).

One of the most interesting generalizations to emerge from the microfinance and poverty literature is that the poorest of the poor (chronic poor) borrow essentially for protection purposes given both the low and irregular nature of their income. This group, it is suggested, is too risk averse to borrow for promotional measures (that is for investment in the future) and therefore is only a very limited beneficiary of microfinance schemes (Hulme and Mosley 1996: 132).

The view that it is the less badly-off poor who benefit principally from microfinance has become highly influential and, for example, was repeated in the World Development Report on poverty (World Bank 2000:75).

Financial Sustainabilty

The second criticism of microfinance is that financial sustainability is rarely achieved. There is overwhelming evidence of the failure of MFIs to achieve financial independence from subsidies, even if autonomy is pushed as the primary goal (Murdoch 1999:1587). Advocates for the microfinance approach to poverty alleviation are continuously haunted by statistics such as: "only 1% of MFIs are financially selfsufficient" (Murdoch 1999:1587). Opponents of the MFI system use statistics as evidence for the failure of microfinance and thus, as proof that the practice should be discontinued.

Supporters of this approach insist that microfinance institutions should provide services to the poor that integrate training, basic education, health and nutrition classes, and microcredit loans (Bhatt and Tang 2000:2). According to Graham Wright, author of Microfinance *Systems: Designing Quality Financial Services for the Poor*, "An MFI's ability to attract the poorest depends on the financial services it offers, and whether they have been designed to be appropriate for the needs of the poorer members of the community" (Wright 2000:262). Eventually, when destitute families have acquired basic health and business training, they will be confident enough to take out a loan. Activists for the integrated approach rationalize that although provision of training and educational services is costly and will more than likely compromise the financial sustainability of an MFI, it is the only way through which poverty alleviation, the ultimate goal, can be achieved for the poorest of the poor. The integrated approach has a stronger impact on poverty alleviation (Murdoch and Haley 2002).

The argument for the minimalist approach is that unless the MFI is financially sustainable, it will be unable to grow, and thus, will exclude thousands of potential clients who could be helped by access to microcredit (Murdoch and Haley 2002).

Potentially Harmful to Women and Children

The third criticism against microfinance is that it is potentially harmful to women. For most of history, women were excluded from public or income-generating activities; only recently they have started to speak up about gender equality and the right to equal economic opportunity with men. Some men feel that women's independence is a direct threat to traditional patriarchal power (Murdoch and Haley 2002:136). In some cultures, if a man's wife works, and most especially if she generates more income than he does, it degrades the man's sense of masculinity (Cheston and Kuhn 2002). This can lead to a power struggle as the man attempts to regain dominance over the household and in some cases, it escalates to domestic violence against women (Murdoch and Haley 2002:136; Cheston and Kuhn 2002).

There is a second argument for why microfinance may be harmful to women. Microfinance is hailed as a means of promoting economic opportunity and empowerment to women; however, when women take out a microcredit loan to start a business, it is often the men who control how the loan is used (Rahman 1999:75). In most Third World communities, men have better income-generating activities, access to wider markets, and enjoy a higher societal status than women (Murdoch and Haley 2002:136). Some argue that when men control the loans given out to women, it further enforces patriarchal control over women's lives (Murdoch and Haley 2002:136).

There is also evidence of husbands or other male relatives expecting or forcing financial control of the loans granted to women (Todd et al.1996). In such cases women are effectively being used as debt collectors for their partners' debts. One study showed that 7 out of 10 of those women without control of their loans remained in poverty. Another study found that the larger the loan, the more likely it was that men had control. (Todd et al.1996).

Another challenge that women face with microfinance is that they have a double workload of running a business and childcare (Cheston and Kuhn 2002). Traditionally, women have taken care of children and household work while the men earn income for the family. More and more women are now entering the public workforce, but they are still expected to assume responsibility for all domestic tasks (Grasmuck and Espinal 2000:235; Murdoch and Haley 2002:136). This creates an enormous double burden on many women.

Creates Large Debt

The fourth criticism against microfinance is that it creates a large debt for some poor people who are unable to repay the loans (Buss 1999). Small businesses in Third World countries are subject to a great number of obstacles; for example, lack of adequate infrastructure, inability to access supplies needed for a business, flooded markets if enterprises are too similar, difficulties with money management due to improper schooling and lack of training or skill, and a special vulnerability to crises such as a death in the family or a medical emergency. Borrowing money is always a risk, but particularly so for the poor who are already extremely vulnerable to economic shock. Sometimes all it takes is a business failure or medical emergency to plunge a poor person into severe debt and even greater poverty.

A related issue refers to the interest rates charged to poor borrowers. Most microfinance schemes charge close to market-clearing interest rates (although these are often not enough to ensure full cost-recovery given the high cost per loan of small-scale lending). It may be that, even setting aside the argument of risk aversion, such high rates are unaffordable to the core poor given their lack of complementary inputs. In other words, despite their having a smaller amount of capital, marginal returns to the core poor may be lower than those to the better-off poor. If the core poor cannot afford high interest rates, they will either not take up the service or take it up and get into financial difficulties. Also, where group lending is used, the very poor may be excluded by other members of the group, because they are seen as a bad credit risk, jeopardizing the position of the group as a whole.

Not Universal in Application

The fifth argument against microfinance is that it is not universal in application. It is said that microfinance cannot be utilized by the very young, the old, the sick, or physically or mentally handicapped (Versluysen 1999:225). Microfinance programs are also charged with excluding rural locations without infrastructure or access to markets, areas with a dispersed population, or communities that depend on a single economic activity (Parker and Pearce 2001). The most biting indictment against microfinance is that it requires the poor to be entrepreneurial (Versluysen 1999:224). Even in our own country it is abundantly clear that most people are not entrepreneurial. It would be naïve to assume that the poor are any different. Advocates of microfinance tend to promote the idea that all poor people are dynamic, ambitious businessmen and women just waiting for the chance to shine, if only they had access to credit. Critics argue that microfinance is exclusive and that most impoverished people are poorly educated, marginalized by society, and unlikely to have the entrepreneurial drive needed to establish a business (Khandker 1998:152). Critics stress the need to find a more universal approach to poverty alleviation.

Microcredit has shown some successes to reduce poverty but its success does not necessarily mean that it is a solution for all types of poverty everywhere. This success has to be very critically analyzed before implying it for the extreme poor as they are living in a very vulnerable condition and any kind of mistake in their development process will be more lethal.

2.8 OPERATIONAL DEFINITION OF TERMS

These terms are defined in the context of this particular research project

Microfinance is the provision of financial services such as credit (loans), savings, the provision of support and capacity building to economically active poor and low income households to enable them engage in income generating activities or expand/grow their small businesses. Microfinance services could be divided to three groups: 1. Microcredits; 2.Additional microfinance services; 3. Support systems

Microcredits. Microcredits are main type of microfinance services. Microcredits are the small loans provided by Otuasekan Rural Bank to poor and low-income households and their microenterprises. "Unlike other loan, clients are not required to provide collateral to receive loans. This allows people who do not qualify for loans at traditional financial institutions to receive credit". Micro Lending at Otuasekan Rural Bank is based on group guarantee. Within this mechanism if the group member does not pay back the loan, he will be under the influence of group pressure to pay. Providing microloans to poor people is quite expensive, especially in relation to the size of the transactions involved. This is one of the most important reasons why banks don't give small loans.

Additional microfinance services. Additional microfinance services include savings, insurance and remittance transfers. Otuasekan Rural Bank uses voluntary client saving account as an additional source of income. Clients may deposit funds into a saving account and withdraw at will. Savings provides security for the clients to think about their money for long-term goals in the future, it enables money to be passed on to children and allows for risk-taking.

Support systems. MFI's usually educate local communities about the opportunity to improve their life with microfinance. The local MFI might also offer microfinance plus activities such as entrepreneurial and life skills training, advice on topics such as health and nutrition, sanitation, improving living conditions and the importance of educating children. MFI assists clients in solving some of the life challenges they may face. Many MFI provide social services, such as basic health care for clients and their children. A few of them also use focal centres where clients gather to conduct financial transactions and receive other social services. The peer support system practiced by many microfinance programs is another unique feature. When clients gather on weekly basis "centre meetings" to make loan payments, or informally in smaller support groups, they share successes and discuss ideas for solving business and personal problems.
Maybe most importantly, they empower each other to stay on the path out of poverty. This

mutual support strengthens their resolve.

'Poverty'

Poverty is classified into three variables, Income poverty, Vulnerability and Empowerment. Any of the three can be seen as being "Entrepreneurial or Economic poor"

Entrepreneurial poor are individuals who lack the skills, ideas and knowhow to enter into any economic venture

Economic poor are individuals who have the skills, ideas and knowhow to enter into an economic venture but however lack the funds or finances to enter into any business or trading

Income poverty stands for lack of income to afford minimum basic necessities of life. Income Poverty is further classified into two categories: Chronic (destitute) and core poor:

A. **Chronic (destitute) poor** are those who are either so physically or socially disadvantaged that without welfare support they will always remain in poverty. They are also termed as

B. **Core poor** are those categorized by irregularity in income or low income of less than $1 a day.

Vulnerability involves the probability of risk today of being in poverty or to fall into deeper poverty in the future.

Regarding Empowerment, the focus of this study is on women.

Here empowerment is further classified into three categories namely, Economic, Social and Political empowerment. They are defined as follows:

1. Economic empowerment refers to economic security of oneself.

2. Social empowerment refers to the ability to participate in decision-making in the

community including the household and non-family groups.

3. Political empowerment refers to the ability to interact in the public sphere

CHAPTER THREE

METHODOLOGY AND ORGANISATIONAL PROFILE

3:0 INTRODUCTION

This chapter describes the method used to arrive at answers to the case of Impact assessment of Microfinance on Poverty alleviation.

3:1 DATA SOURCES

The study is based on primary (direct) and some secondary (literature reviews) sources. The two major variables involved in this study are **Microfinance** and **Poverty.**

3:2 METHOD OF DATA COLLECTION

This research methodology is designed in a simple way and conducted using a detailed questionnaire (semi-structured and informal interviews) to gather and systematically track the client's responses on the impact of microfinance. The questionnaire administration is interviewer assisted. The purpose of using this method was to get individual's opinion about how Microfinance works among them and to get a deep understanding of Microfinance and its impact.

3:3 SAMPLE FRAME (POPULATION)

Both providers (Management) and Existing clients of the Microfinance department of Otuasekan Rural Bank were the main participants for this research since they are the beneficiaries or users of the Bank's product. Clients of the Microfinance section are organized in groups. The minimum in a group is five and the maximum is ten. The group act as a guarantee for Micro lending since clients are not required to provide collateral to receive loans. Members in the groups are predominantly females with few males. The dominant economic activity of the Microfinance clientele base is agriculture. While some women are engaged in the sale of food items and petty trading

3:4 SAMPLING TECHNIQUE

A Purposive random sample of seventy-five Microfinance clients of Otuasekan Rural Bank was selected to be interviewed. This sampling technique was employed because of the already existing groups of the clientele base and therefore making it easy for a random sample selection from the population.

3:5 SAMPLE SIZE

The sample was made up of seventy five (75) microfinance clients consisting of forty –four(44) females and thirty –one (31) males, with ages ranging from twenty(20) to sixty(60) and a mean age of forty(40). Two management staffs were also interviewed while the clients were identified in groups of eight:

Victory Club – consisted of seven(7) females and three (3) males

Odo ne Asomdwee – consisted of six (6) females and three (3) males

Agyenkwa – consisted of eight (8) females and one(1) male

Sepe Market – consisted of only seven (7) females

Nyame Nhyira – consisted of seven (7) females and three (3) males

Grace group – consisted of five (5) females and five (5) males

Amascotizan – consisted of one (1) female and nine(9) males

Abandenden – consisted of three (3) females and seven (7) males

Out of these groups, a special attention was paid to the cash crop producers who were made up of five females and ten males.

3:6 METHOD OF DATA ANALYSIS

The Statistical Package for Social Sciences (SPSS) programme was used in analyzing data into frequencies and barcharts. Simultaneously, Gordon's model was used in estimating the percentage growth in Income.

3:7PROFILE OF OTUASEKAN RURAL BANK

Otuasekan Rural Bank Ltd which has its Head Office at Kofiase in the Ashanti Region of Ghana, was incorporated on May 18, 1988, under the 1963 company's code (Act 179).It was issued with the certificate to commence Business on May 24,1988. The Bank is owned by shareholders, whose share capital stood at Fifty six thousand and eighty Ghana cedis as at December 31,2005.In addition to the Head Office, the Bank has seven(7) agencies with a total customer base of 30,905 as at December,2005.

It's Corporate vision is Distinguished service, Exceptional Customer satisfaction

In line with the Bank's vision, the mission of the Bank is to provide distinguished banking service to individuals, farmers, micro-small and medium-scale enterprises and associations , with customized(gender-based) financial products to ensure utmost customer satisfaction.

3.8 General Objectives of the Bank

To help fulfill the Bank's vision and mission, the objectives that the bank is pursuing are to:

1. Provide the Bank's clientele with prompt and cost effective banking services.

2. Expand the Bank's customer base

3. Increase both the Bank's Share Capital and its mobilized deposit

4. Provide gender-based, attractive, customized financial products and technical support to micro-small and medium-scale enterprises in our catchment area.

5. Invest excess funds in diversified high-interest yielding ventures to meet the expectations of customers and shareholders.

6. Continually build the capacity of the bank's human resources with appropriate knowledge , skills and attitude and motivate them for efficient service delivery.

7. Support needy communities in the catchment area to undertake socio-economic development programmes.

3.9 Economic Activities of clients

The Bank's catchment area lies in the moist semi-deciduous forest. The dominant economic activity is agriculture, and the main tree crop cultivated is cocoa. Food crops produced include plantain, yams, maize and vegetables such as onions , tomatoes, garden eggs, carrots and sweet pepper. While some women are engaged in the sale of food items along the main roads, the bulk of food items is sent to the main urban centers, including Kumasi and Accra.

Commercial activities are very brisk in the urban and the peri-urban areas, especially with the presence of electricity in the communities. There are many small and micro scale enterprise engaged in artisanal activities and cottage industries.

3.10 Products and services

Among the products and services that the Bank offers include current Account, savings Account, Fixed Deposit, salaried workers loans, Farmers loans, commercial loans, salary advances, Funeral/social loans, Micro-Enterprises loans, Money Transfer service, cash collection service, installment Advisory service, acting as Executors of trustees for WILLS, and Agricultural/technical/commercial Advisory service.

The Bank has a Microfinance department headed by a Manager with other staffs working under him as microloan officers. The department runs three (3) micro credit schemes aimed at reducing poverty. These are:

A. Otuasekan Microfinance Scheme(Group based)

B. Otuasekan ogyefour microfinance (Group-based)

C. Otuasekan Ogyefour Susu Savings and Loan Scheme (individual- based)

Aside using the group-based form of microlending as a collateral, 25% of loan amount is collected from the group as a Lien. Interest on microcredit has been increased from 25% as of the year 2008 to 30% in the current year. The loans have a maturity period of six months.

3.11 LENDING

The Otuasekan Microfinance scheme is a group based microfinance product of the Bank. This product is 100% group based. This group base offer a joint liability and serve as a prerequisite for assessing Micro loans from the Bank.

The concept of group lending is that of a group of borrowers usually 5-10 people organize themselves into groups that offer joint liability for member loans. If one fails to repay, all members are liable to pay. Failure would mean that all members are denied future loans. Group loans range between 50-1000 Ghana cedis. Loans given to groups are usually short term loans and these are better since repayment is made faster. Interest charged is 2.5% monthly and 30% per annum subject to market changes.

3.12 LENDING PROCEDURE

Lending is open to all especially the rural poor but the most important criterion for selection of a client must have a viable income generating activity. Before the initial loan is disbursed, all clients must attend some training which explains the rules of membership, savings requirement and penalties for late payment. Each member in a group will then have to open a savings account with a minimum opening balance of 5 Ghana cedis, aside the group savings account of a minimum opening balance of 10 Ghana cedis. The group is then allowed to put in a loan application. The loan officer vets the application, after which the application is forwarded to the the Head of Microfinance unit for approval. Amounts above 1000 Ghana cedis is forwarded to rual branch committee for approval.

CHAPTER 4

EMPIRICAL FINDINGS, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

For the purpose of this research work, the impact of microfinance on Poverty was measured on Income and Empowerment. With the use of SPSS, data were analyzed into charts and frequency tables. Simultaneously, percentage growth in average Incomes were also determined.

4.1INCOME

In measuring Income, the researcher intended to find out whether there has been an Increase, a decrease or no change in the income levels of clients after assessing microcredit from the Bank. To achieve this, the researcher made a comparison of the impact on the current (2009) year's income with the previous year (2008).

TABLE 1: SUMMARY OF SAMPLE NUMBER FOR INCOME IN YEAR 2008 AND 2009

Frequencies

Statistics

		income1	income2
N	Valid	75	75
	Missing	0	0

Income1=2008 Income2=2009 N=sample number

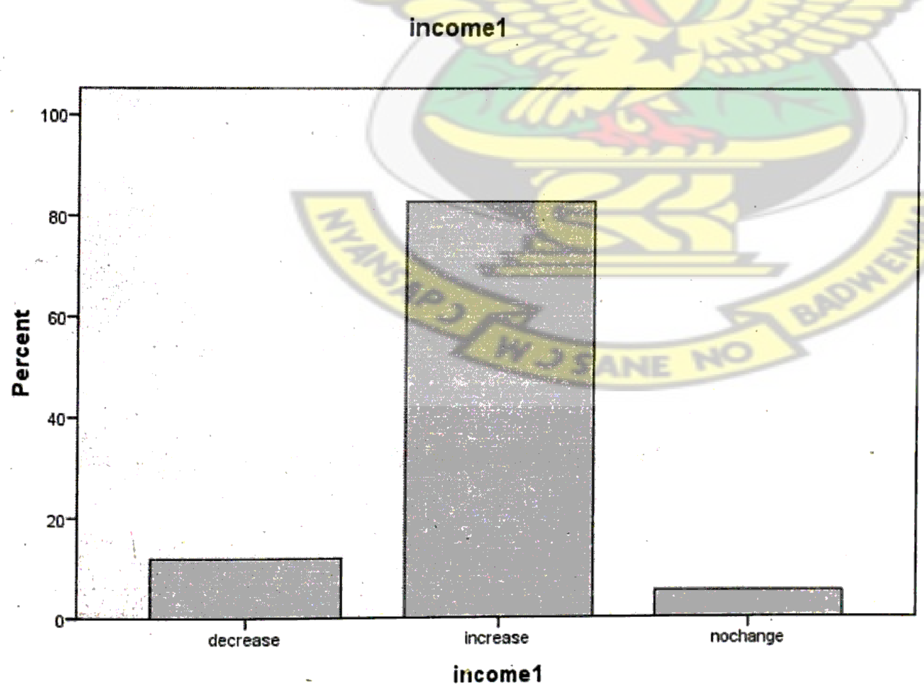
TABLE 2: FREQUENCY TABLE OF INCOME IN YEAR, 2008

Frequency Table

income1=year 2008

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decrease	9	12.0	12.0	12.0
	increase	62	82.7	82.7	94.7
	nochange	4	5.3	5.3	100.0
	Total	75	100.0	100.0	

From the above table, it could be seen that in year 2008, the majority (82.7%) of sampled clients interviewed responded positively that they had registered increment in incomes, while 12% noted a decrease, and 5.3% remained the same.



The bar chart (CHART 5) above is a summary representation of microfinance impact on income in year 2008.

Using the Gordon's model in estimating percentage growth in Income, $D_1 = D_0(1+g)^n$

Where D_0 = average income of clients before taking a micro loan in 2007 (18 GHANA CEDIS)

Where D_1 = average income of clients after taking a micro loan in 2008 (25 GHANA CEDIS)

g = growth , n = number of years.

$25 = 18(1+g)^1$

Therefore g = 38.8%

Nominal monthly income of micro-borrowers saw an average growth of 38.8%. The case study show that microfinance can significantly increase the income of poor households, which translates into better nutrition and health for impoverished families. Microfinance contributes to increased income, consumption smoothing, the ability of households to sustain gains over time, better health and nutrition, and improvement in school attendance. All of these benefits are interconnected; the improvement of one will invariably have a positive effect on the others. The combined enhancement in all areas of life brings a marked increase in living conditions for the poor and a new message of hope for the eventual eradication of poverty.

Of course, the establishment of the micro-credit scheme should not be considered as the only reason behind the borrower's incomes. The income of entire population of Ghana increased in the last years due to high growth dynamics observed in the country from 2007 to 2008(GDP growth rate: 5.2, Income per capita: US$290) . Expanding micro-financing activities seem to be an additional impulse to the income growth process.

It is these incomes that can help clients to solve some problems of poverty, isolation, physical weaknesses as they can afford a good diet, powerlessness as now they acquire social connections, vulnerability as they can save and now able to deal with crises and as a consequence break the poverty trap. This confirms other related research works (Khandker 1998:148; Murdoch and Haley 2002:5; Simanowitz and Walter 2002:23; Wright 2000).

Overall, the evidence is overwhelmingly in favor of microfinance as a tool to increase household income, smooth consumption, and enable the poor to sustain gains over time. Microfinance enables many impoverished families to earn enough income to rise above the poverty line and is therefore an effective method of poverty alleviation. The issue that can attract debate is the duration of this income as to how long it can last. Such pervasive fluctuations affect savings and investment.

TABLE 3: FREQUENCY TABLE FOR INCOME YEAR,2009

income2=2009

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decrease	40	53.3	53.3	53.3
	increase	15	20.0	20.0	73.3
	nochange	20	26.7	26.7	100.0
	Total	75	100.0	100.0	

In year 2009, the majority of the clients (53.3%) reported a decrease in income, 20% registered increment in incomes and 26.7% had no change in their incomes.

Using the Gordon's model in estimating percentage growth in Income, $D_1 = D_0(1+g)^n$

Where D_0 = average income of clients before taking a micro loan in 2008 (25 GHANA CEDIS)

Where D_1 = average income of clients after taking a micro loan in 2009 (20 GHANA CEDIS)

g = growth , n = number of years

$20=25(1+g)^1 = -20\%$

The current year(2009) registered a reduction in income of 20%. The results is very intriguing and presumably shows that there might be other mediating factors between Microfinance and Poverty, as the clients were exposed to fluctuating incomes which means that they rotate in and out of poverty.

This sharp drop which can be attributed to other factors aside micro financing presupposes that, micro financing alone cannot alleviate poverty. The proponents of microfinance (Yunus, Nobel Lecture, 2006 ; Murdoch and Haley 2002:5; Simanowitz and Walter 2002:20) argue that when you help the poor with microfinance, then the problem of poverty is gone for ever. However one has to be very careful with this type of argument because it ignores the fact that capital as a resource is just one factor of production which must be combined with other factors like entrepreneurial skills, capacity building and training, well functioning markets, good feeder roads to transport merchandise and good communication among others in order to add value to it. The current global financial crisis is also a major contributing factor of the sudden drop in income levels.

4.2 DISCUSSION OF SOME MEDIATING FACTORS

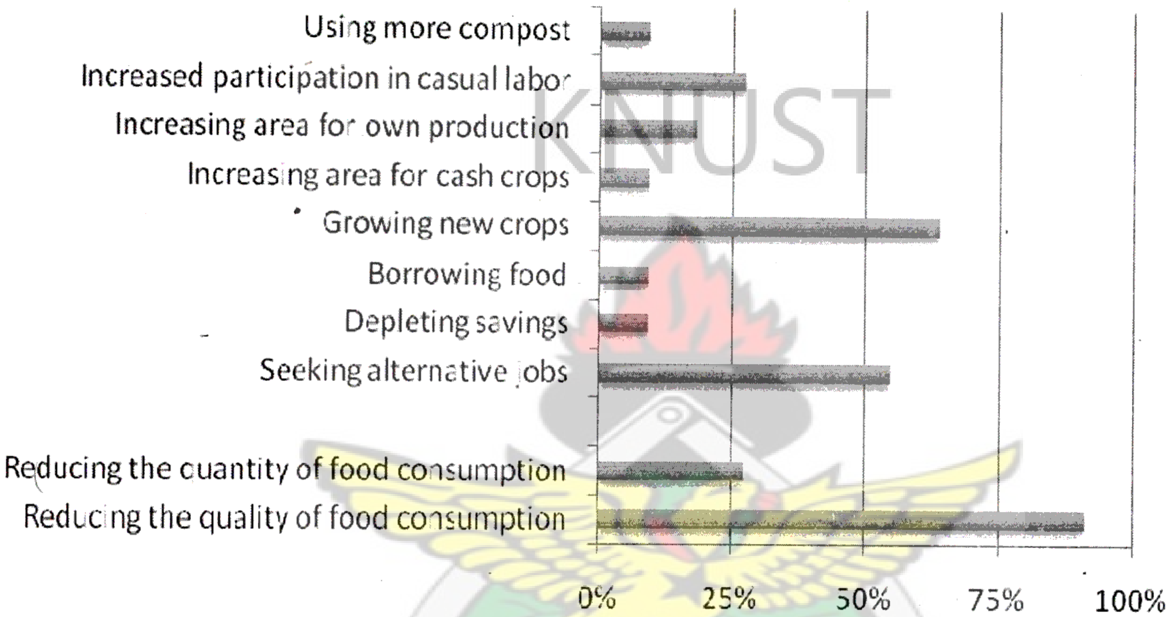
Fluctuations in Prices as a result of Global financial crisis

Ten out of eleven cash crop producer focus groups reported a decline in income compared to a year ago. The decline is attributed to lower cash crop prices (45% of groups), higher farm input costs (36% of groups) and lower staple food prices (27%). Although households report lower incomes, it should be noted that farm gate prices for cocoa are higher than a year ago, with the official price having increased from 90 to 102 cedis per ton. Nonetheless, this 13% increase in price is lower than the overall increase in prices for the Ghanaian economy, which could explain why cocoa producers perceive themselves as worse off than a year ago. Prices have declined for palm oil: the price of a 30 liter jug of palm oil is two-thirds below its level a year ago, a decline that mirrors the drop in international crude palm oil prices. Prices for unprocessed palm oil kernels have similarly dropped. Palm oil processing seems to be a significant dry-season income source for women in this livelihood group. These price drops are occurring as farm inputs remain expensive, and as casual labor costs are rising. This perceived "squeeze" may explain the perception of lower incomes for the cash cropping livelihood.

According to IMF (2009a), the decline in economic activity and in household incomes are undermining consumer demand, affecting cereal trader's business. Traders strongly perceive that demand for cereals has decreased compared to a year ago: 87% of the traders selling millet reported a year-on-year decline in demand; as did 73% of traders selling rice and 69% of traders selling maize. The reason cited for this decreased demand is low purchasing power: "there is no money" was the most frequent explanation provided.

In order to cope with the income shock, households in the farming community are modifying their livelihood strategies (see Figure 6). Households are taking on new activities, such as growing new crops (64%) to take advantage of market opportunities and seeking alternative jobs (55%). Other strategies such as increased participation in casual labor (27%) and devoting and increased area to the cultivation of staple foods (18%) are less widely practiced. The least reported coping strategies include depleting savings, borrowing food and using compost instead of expensive chemical alternatives to fertilize crops (9% each).

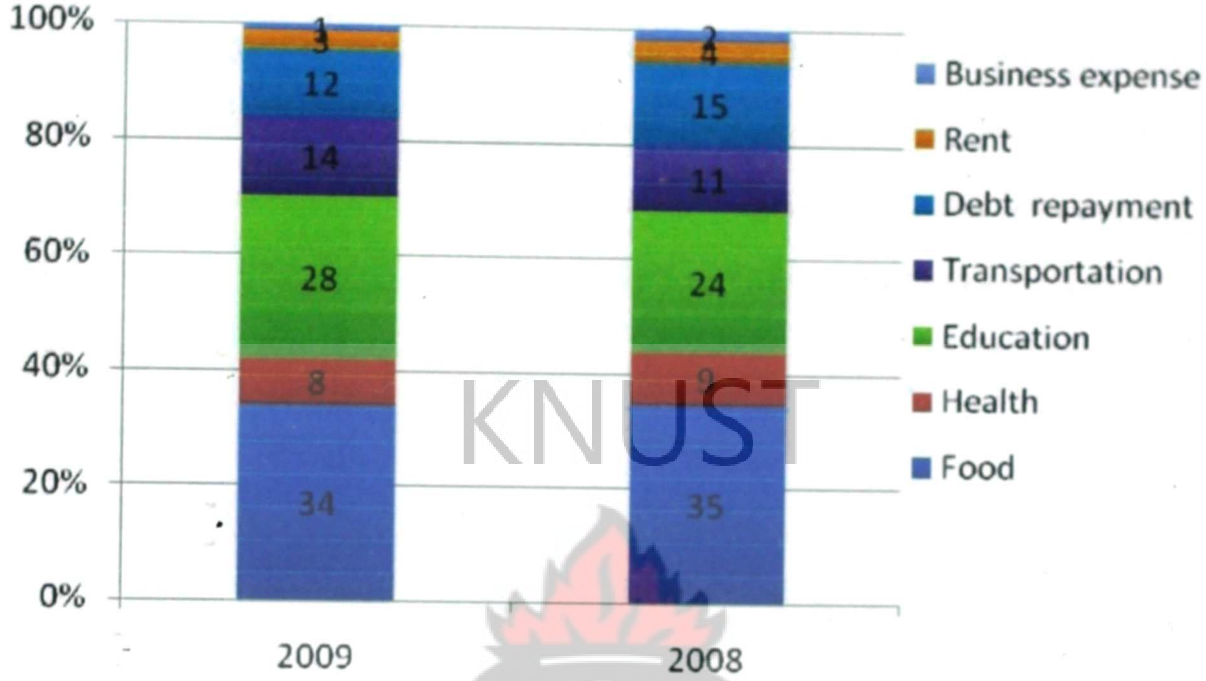
Figure 6: Coping strategies - cash crop producers
Source: Men and Women's focus groups



The above chart shows the coping strategies employed by the cash crop producers

Interestingly, discussions show that cash crop farmers expenditure patterns are broadly unchanged from 2008 to 2009, as identified in Figure 7. This stability in patterns suggests relative consistency in life priorities for cash crop producers compared to last year.

Figure 7: Expenditure patterns cash crop producers
Source: Men's focus groups



The above chart represents the expenditure patterns of cash crop producers. Debt repayment was 11% in 2008, and 14% in 2009. However a chunk of expenses (35%) went into food in both years. Very little percentages (2%, 1%) were reinvested into business. With this group of clients, it will be almost impossible for an impact to be made on their poverty levels as they will still be moving in and out of poverty. Leaving poverty does not necessarily depend on repaying one's loans. Leaving poverty depends on creating a successful business.

On the other hand, the economic and financial crisis does not seem to have yet had a discernable impact on supply, which appears to be evolving according to usual parameters. Traders are divided on how supply has evolved in the past year for maize and rice. For millet, traders explain that supply has deteriorated compared to last year because of irregular rains and a consequent decline in production (IMF 2009a).

The trader survey indicates that access to financing remains as it was prior to the crisis. The unavailability of credit seems to be a chronic problem facing Ghanaian traders. Although 70% of interviewed traders hold bank accounts, most traders are self financed. Those that have access to external financing obtain it from other traders, including their suppliers and relatives. Only 10% of interviewed traders obtain credit from banks. From the trader's perspective, if anything, the impact of the global economic and financial crisis has been on consumer demand rather than on access to credit. (IMF 2009a).

Inflation: Economic indicators show that, in the year (2007), Inflation was 10.4% before jumping to 18% in the last quarter of 2008. In the current year (2009), inflation has been hovering around 20%. As noted, the percentage growth in income increased but fell sharply in the year 2009 (2008: 38.8%, 2009: -20%), depicting that a stabilized economy underpins a very successful microfinance impact on poverty. Notwithstanding this it must be emphasized that, there was an impact on client's income though at a decreasing rate. In the current year (2009, income2), the number of the rate of reduction (decrease in income) as reported by clients was 53.3%. This is 41% rise in the number of clients reporting percentage decrease in Income from the previous year (21%). The question is could inflation be a contributing factor?

Lack of Risk management practices: 80% of clients interviewed lacked risk management practices and have never practice such before. Management should provide and train clients on such services as it has a double effect on both client and Management in terms of repayment of loans . Some strategies for coping with risk are, to modify consumption, raise income by mobilizing labor or selling assets, drawing on informal and formal savings, make claims on informal group based insurance mechanisms

4.3 PRACTICES OF OTUASEKAN RURAL BANK

MICRO CREDITING BUT NOT MICRO FINANCING

Another important factor was the fact that, In the case of Otuasekan Rural Bank, Micro crediting is more practiced and promoted to the neglect of other Microfinance practices such as encouraging members to save, provision of entrepreneurial and life skills training, risk management, post lending support and monitoring, financial management and good business practices. The Bank was of more profit centered than client centered.

Though the bank report repayment rate of 90% percent and bad and doubtful debts of 16% in the current year, yet these metrics hide how poorly clients are faring. The Microfinance department often lend to groups, and so they do not report when individual clients within the group default. From the institution's perspective, this makes sense: There is no default if the rest of the group repays the loan. But from the clients' perspective, one person's default means more suffering for everyone. Other group members are forced to make up the difference – often with great hardship. And the debtor, in turn, faces the wrath and sometimes violence of the other members. Some debtors have even resorted to suicide. And so high loan repayment rates don't necessarily indicate wealthier, happier clients. Pressure to post high repayment rates also leads many Microfinance Institutions (MFIs) to neglect the truly poor.

Another common indicator of an MFI's health is the average size of its loans. Yet this case study found that the larger the line of credit, the more families borrowed, rather than saving some of their credit for future use. These families also continued to borrow from informal sources, thereby plunging them into excessive indebtedness.

Micro savings : Though clients are required to open a bank account with a minimum deposit of 5 Ghana cedis before assessing a loan facility, However they were not encouraged to continue saving afterwards. Reasons given by most clients were that, "they was little left to save" as Monies had to be reinvested in trading. Most importantly also is the weekly repayment terms by the bank. Aside these, clients complained of family and social demands on their incomes and therefore making it almost impossible to save part if not whole income

Savings especially is critical as it can be used for the expansion of economic activities and another microfinance cycle. The problem is usually the general environment in which these clients operate which has its demands. The savings can be subjected to both family and extended family pressures which can make it difficult to save for long term purposes. Moreover these savings are in most cases short term savings and its intended aim may not be achieved. Fluctuations in savings do not only obstruct the efforts to cope with risks and vulnerability in times of crises but also the efforts to break out of poverty. Moreover these savings were not established before starting the micro enterprise to give me the necessary data before and after to enable me to come with conclusive answers that the clients had really saved.

Services for Microentrepreneurs

Beyond financial services, the Bank offer basic loan repayment training. Generally the training is limited to emphasizing the importance of repaying the loan and of applying the loan to the business, rather than spending it on personal needs. Yet clients often face health emergencies and family crises, and also want to spend some of the loan proceeds on education. And so the Bank need to give It's clients more training in financial literacy and money management so that they can better meet both their business and personal needs. At present, Otuasekan Rural Bank do very little of this.

Moreover, mastering loan management does not lead to generating profits. Just because clients use a loan to stock more inventories, for example, does not mean that they will be able to sell the goods at a profit. Also selling goods at a profit does not necessarily mean that they can generate enough profits to support household needs, business reinvestments, and loan repayments –at interest rates as high as 30 percent.

Leaving poverty does not depend on repaying one's loans. Leaving poverty depends on creating a successful business. The bank should shift to a client-centered approach in order to have a double success for it's clients and itself.

Lack of post-lending support and monitoring.

In the existing poverty alleviation practice in Ghana, disbursing a loan is the final step. There is usually no follow-up to support efficient use of loans. There is little responsibility for follow-up monitoring and technical support. Without a monitoring and management system, there is no way to support the poorest households in the efficient use of loans. For example, there are reports of poor farmers offered poverty alleviation loans who take the money and lock it away at home so that they could repay the loan on time. The farmers were so risk averse that they were afraid to use the loans. They had no access to technical support to give them confidence in investing in inputs for production.

Client-Friendly Products and Practices

Client-centered microfinanciers need not only provide services after the fact of lending, they should also consider clients' needs on the front end. Meeting clients' needs begins with an analysis of client economics. Too few academics or practitioners have studied how clients use their loans. For example, Otuasekan Rural Bank award many of their smallest loans to traders and service providers who use the loans to purchase inventory. But no one seems to know how these clients use their inventory to generate profits. Do they sell it gradually over the six month loan cycle, or do they replenish their inventory every two days? How do they decide how much to mark up their inventory? Will their markups be enough to cover the loan payments and meet household needs? In some cases, the Microfinance department of the Bank makes inventory loans to clients who are unlikely to use them for inventory. What does a produce vendor with sales of 5 Ghana cedis per day do with a 100 Ghana cedis loan?

When standardized loans are mismatched with client needs, clients may borrow more than they need, pay higher than necessary costs, or make poor choices, like skimping on quality or selling out inventory stocks to meet an unforgiving payment cycle. And so understanding how clients use financial products can help the Micro Finance department tailor their financial products.

A final way that Microfinance department can better serve their clients is to measure whether their loans are actually moving people out of poverty. The Bank can monitor this by developing it's own if not adopting an accepted poverty index. The index should include socioeconomic indicators such as whether school age children are attending school and whether family members are free from treatable health problems. Such metrics can show whether loan officers, branches, and Microfinance departments are achieving their social goals. They can also be used as a basis for rewards and resource allocation decisions.

Entrepreneurial skills: An in depth interview of clients revealed that 40% of them lack entrepreneurial skills. These clients can be best described as being Entrepreneurial poor rather than being economical poor. They just did not know the kind of business to invest in. This created a moral hazard problem and as a result, clients defaulted in their payments. About 16% of micro loans were treated as Bad and doubtful debt.

The most biting indictment against microfinance is that it requires the poor to be entrepreneurial (Versluysen 1999:224). Even in our own country it is abundantly clear that most people are not entrepreneurial. It would be naïve to assume that the poor are any different. Advocates of microfinance tend to promote the idea that all poor people are dynamic, ambitious businessmen and women just waiting for the chance to shine, if only they had access to credit. Most impoverished people are poorly educated, marginalized by society, and unlikely to have the entrepreneurial drive needed to establish a business (Khandker 1998:152). There is therefore the need to find a more universal approach to poverty alleviation.

4.4 WHETHER MICROFINANCE REACH THE POOREST OF THE POOR (DESTITUTE)

Several arguments have been put forward as to why microfinance does not reach the very poor(Wright 2000:262; Simanowitz 2000). Market interest rates are unaffordable to the chronic and the entrepreneurial poor given their lack of complementary inputs. In other words, despite their having a smaller amount of capital, marginal returns to the chronic poor may be lower than those to the better-off poor. If the poorest of the poor cannot afford high interest rates, they will either not take up the service or take it up and get into financial difficulties.

Also, where group lending is used with respect to this current study, the Chronic who are always perceived as being entrepreneurial poor are excluded by other members of the group, because they are seen as a bad credit risk, jeopardizing the position of the group as a whole. Alternatively, when professional staff operate as loan officers, they exclude the chronic poor from borrowing, again on the grounds of repayment risk. However the chronic poor might not be an entrepreneur poor.

Another discovery was the fact that, almost all the clients were living above $1 dollar a day as described by the World Bank (World Bank 2000/2001).

What is interesting to analyse in this study basing on the field survey is the type of the poor people coming for loans at the Bank. The question one can ask is whether the people served by Otuasekan Rural Bank in particular are the poor people in Ghanaian context. How does one position a woman client who runs a retail shop and comes for a loan to expand her business? These are not the poorest of the poor (the destitute). Instead they are those clients who are already empowered, having entrepreneurial skills just in waiting to pull the trigger to start economic activities or expand the existing ones. One can see a perception of a market driven system of the economy with clients who are ready to take risks by investing in micro enterprises.

One of the most interesting generalizations to emerge from the microfinance and poverty literature is that the poorest of the chronic poor (the core poor) borrow essentially for protection purposes given both the low and irregular nature of their income. (Hulme and Mosley 1996: 132).

This group, it is suggested, is too risk averse to borrow for promotional measures (that is for investment in the future) and therefore is only a very limited beneficiary of microfinance schemes (Hulme and Mosley 1996: 132). In combination, these factors, it is felt by many, explain the weakness of microfinance in reaching the chronic poor.

Poor people are also not well organized. With economic reforms, old systems of peasant organization have nearly disappeared. Under the existing poverty alleviation policy in Ghana, there have not been any effective ways of organizing poor farmer borrowers. They are like "loose sand", lacking an organizational base to improve their access to services, improve their knowledge and technical skills or undertake collective action.

Savings services are not designed to meet the requirements of poor households. In the existing poverty alleviation practice in Ghana, little attention has been paid to providing savings opportunities to poor households, and to mobilizing savings as a source of capital for on-lending. Lack of productive savings opportunities combined with the inadequacy of credit supply deprives the poor of the basic means to get out of poverty. This contributes to the high rate of 'recidivism' or rate of poor people returning to poverty.

4.5 WOMEN EMPOWERMENT

Regarding Empowerment, the focus of this study is on women. According to the World Bank, "societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard of their people. Overall, evidence is mounting that improved gender equality is a critical component of any development strategy" (Cheston and Kuhn 2002). World leaders are finally beginning to realize that poverty alleviation will only be achieved through the empowerment and economic improvement of women. Thus, microfinance is an integral component to new development strategies because it allows women greater autonomy and control over their economic well-being.

Results of this research on empowerment are explained with a frequency table below:

TABLE 4: FREQUENCY TABLE OF WOMEN EMPOWERMENT

empowerment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	35	79.5	79.5	79.5
	no	9	20.5	20.5	100.0
	Total	44	100.0	100.0	

From the empowerment table, it could be seen that out of the forty-four interviewed female clients, 79.5% felt empowered while 20.5% had no impact.

The women clients were asked whether participation in microfinance programme has empowered them. The majority who answered to this question felt that their position in the family had been strengthened, had attained a real change in their lives and self–esteem when they compare themselves to that period before they joined microfinance. The 79.5% client felt they were economically and socially empowered but not politically. According to the women, they were excluded in political positions when competing with men. Only highly educated women were considered but always subordinated. This reaffirms the fact that only education can empower a woman politically in the Ghanaian setting. These women interviewed were predominantly illiterates. This supports related work by Cheston and Kuhn 2002. According to (Cheston and Kuhn 2002) Education and experience in leadership helped women become more confident and capable leaders in Ghana. Without Education, micro crediting alone cannot empower women politically. In Community ceremonies like funerals, only the money of women is needed but not their decisions. Even if allowed to take part in decision making, they only add up to numbers as their views are not respected.

However, there is much discussion as to what empowerment of women comprises and what relationship is there between microfinance and women empowerment. There are still arguments which are not conclusive as to whether microfinance can break the structural sub ordinate position of rural women given the existing socio economic, cultural settings and mindset of society.

This line of argument calls for a more detailed study since to some conservative societies in Ghana, it is unheard of for a woman to ascend from a subordinate position as women are considered subservient to men. These prejudices still exist in society and greatly compromise the promotion of empowerment. It is true that changes in resources can lead to individual women to enjoy, but the danger is that they leave intact the structures of inequality and discrimination. It may not help to improve the women economic welfare without empowering them. In view of this analysis, one can argue that empowerment cannot be assumed to be an automatic outcome of microfinance programmes, especially given socio-cultural settings and mind set of some societies in Ghana. The fact that women are no longer confined to kitchen as their area of operation can be put to question because much as they run businesses their role in the kitchen remain and wait for them. Therefore women empowerment has generated mixed results in the academic discussion. It is argued that it does not even change the decision making patterns within the household but instead aggravates it (Grasmuck and Espinal 2000:235; Murdoch and Haley 2002:136).

In fact to call for empowerment of women in some societies is another way to challenge social structure. In order to talk conclusively about empowerment one needs to consider the hidden pressures from family, culture and society that intervene to remind you that you are a woman. Although some evaluations are positive about the capacity of microfinance to empower women (Cheston and Kuhn 2002). Some critics indicate that microfinance reinforces existing gender imbalances.

4.6 WHETHER MICROFINANCE ALLEVIATE POVERTY AT ALL

Microfinance (as a tool) is just a drop in the ocean regarding poverty alleviation. Results of the study with respect to Income show that Microfinance is treating the symptoms and not the real causes of poverty. This calls for more state intervention to strengthen itself and have the dynamism to create the necessary infrastructure, institutions (legal and financial) good governance and invest heavily in rural development infrastructure where the majority of the poor struggle with biting poverty. Microfinance is not a blueprint for poverty alleviation and development but what Ghana requires is their own mix of policies to reduce poverty. These should reflect a number of components like national priorities, local realities, economic, political and cultural context of the country as well as individual communities.

Another criticism against microfinance is that it creates a large debt for some poor people who are unable to repay the loans (Buss 1999). Small businesses in Third World countries are subject to a great number of obstacles; for example, lack of adequate infrastructure, inability to access supplies needed for a business, flooded markets if enterprises are too similar, difficulties with money management due to improper schooling and lack of training or skill, and a special vulnerability to crises such as a death in the family or a medical emergency. Borrowing money is always a risk, but particularly so for the poor who are already extremely vulnerable to economic shock. Sometimes all it takes is a business failure or medical emergency to plunge a poor person into severe debt and even greater poverty.

The market mechanism on the other hand, does not always guide decision-making on investment and management in enterprises funded by poverty alleviation loans. Many enterprises funded by poverty alleviation loans are not profitable. This results from inadequate feasibility studies, low level of technology, poor management, poor quality control and lack of sales outlets for products

Poverty once again is a very tricky issue. It requires a deep understanding both at a micro and a macro level. The causes of poverty and in particular rural poverty are many, difficult, and complex and cannot simply be reduced to microfinance. Microfinance as mentioned earlier treats the symptoms but real causes of poverty remain. One needs to be very careful in over-emphasizing the role of microfinance for poverty reduction since it requires support of other factors most important entrepreneurial skills. There is need not only to create a development environment for microfinance with favourable conditions like access to knowledge and information, infrastructure like good roads, markets but also to build local institutional capacity in rural communities and public investment in rural infrastructure.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

The chapter summarizes findings, prescribe some recommendations and make a conclusion of the study.

5.1 SUMMARY

The purpose of this thesis is to explore the circumstances under which microfinance can help the poor out of their poverty situation.

1. The first aim in this study was to determine whether Microfinance impact on poverty by increasing Income levels. According to research findings, it is apparent that the majority of clients had registered increased incomes. It is these incomes that can help them to solve some problems of poverty like isolation, physical weaknesses and they can afford a good diet, can deal with vulnerability as they can save and now able to deal with crises, has the capacity to send their children to school and to pay for their health which is critical for their continued wellbeing and as a consequence break the poverty trap.

However in the subsequent year, Income dropped sharply. Results showed that, Other factors played a role for the sharp drop. Factors realized were the impact of the current global financial crisis, Stability of the Economy (Inflation), Entrepreneurial skills, lack of Risk management practices, well functioning markets, Capacity training and skills and a very good savings culture.

2.This leads me to the second aim of identifying whether there are any mediating factors between Microfinance and Poverty. The findings reported that, microfinance alone does not alleviate poverty but however other factors like Stability of Economy, the current global financial crisis, well functioning markets among others, importantly play part for a successful microfinance impact on living standards of the poor. There is need for access to markets for their local products and other infrastructure like good feeder roads to transport the merchandise and institutions for example to deal with legal matters to promote sustainable development and a successful microfinance. Microfinance is just only one factor and requires the support of other factors.

3.The third aim was to assess the practices of microfinance at Otuasekan Rural Bank. Results indicated that aside Micro crediting, other components of Microfinance were not practiced. Very good savings culture were not encouraged, there was lack of training on proper management practices, book keeping, Risk management ,very little of services for micro entrepreneurs aside financial services- the lack of training in financial literacy and money management. There was also the lack of client-centered approach to microfinancing. Rather than nurturing only the success of the Bank, client-centered microfinance also nurtures the profitability of borrowers' businesses – and, in turn, clients' economic and social well-being. They should track how their clients use their loans and how they allocate their profits. They must offer not only financial products and services, but also financial education, management

training, value chain support, and social services. They should also monitor poverty alleviation using measures of not just income, but also health, nutrition, housing, and education

4.The fourth aim was to ascertain whether the poorest of the poor is reached. It became evident that, the poorest of the poor (chronic poor or destitute) mostly are not reached. Where group lending is used with respect to this current study, the Chronic are excluded by other members of the group, because they are seen as a bad credit risk, jeopardizing the position of the group as a whole. However, the chronic poor might not necessarily be an "entrepreneur poor". Poor people have difficulty getting access to loans. With the reform and restructuring of financial institutions in Ghana, loans tend to flow to areas likely to yield maximum profits. Especially, Farmers have difficulty competing for scarce capital. Loans to farmers are considered to be high risk and as generating comparatively low returns

5.This leads me to my fifth aim: whether microfinance promote empowerment of rural women. The majority of women felt that their position in the family had been strengthened, set up businesses and run them and had attained a real change in their lives and self–esteem when they compare themselves to that period before the program. But however could not occupy a political office at local levels. Nevertheless, many felt that they can look after their children, educate them, afford a nutritious diet to the household and are no longer dependent on their husbands.
It is still difficult for microfinance to break structural subordinate position of rural and illiterate women.

6. Finally, my last aim: To prepare concrete recommendations on microfinance development in Ghana. Research findings showed that, There is a fundamental linkage between microfinance and poverty eradication in that the latter depends on the poor gaining access to, and control over, economically productive resources, which includes financial resources. However, the eradication of poverty can not be reduced to Microfinance alone. Microfinance treats the symptoms but the real causes of poverty still remain. One needs to be very careful in over-emphasizing the role of microfinance for poverty reduction since it requires support of other factors. A summary of the recommendations are that; Sound Macro economic policies need to be practiced for a stabilized Macro economy. Since a stabilized Macro finance underpins a successful Microfinance impact on poverty. Also there need to be a holistic approach to alleviating poverty rather than relying on Microfinance alone.

5.2 CONCLUSION

Microfinance is not a panacea for poverty alleviation, but rather an important tool in the mission of poverty eradication. Poverty is a multidimensional problem, embedded in a complex and interconnected political, economic, cultural, and ecological system. Owing to poverty's large scope and multiplicity of actors, there is no single guaranteed approach to its eradication. Within this system, solutions are as multifaceted as the causes. Such a systems' perspective is critical in creating an enabling environment for sustainable poverty alleviation. Problems and solutions are not isolated phenomena, but occur within an interconnected system in which actors and actions have reciprocal consequences.

5.3 RECOMMENDATIONS TO POLICY MAKERS

- Government should ensure macroeconomic stability (low inflation, stable exchange rate, sound financial sector and others), since it is important for poverty reduction effectiveness of microfinance.

Microfinance hinges on a number of other conditions if it is to play a meaningful role. Microfinance is just only one factor and requires the support of other factors. These include entrepreneurial skills in business management, and elementary book-keeping, efficient functioning of markets since they play an important role in the economy and rural development. There is need for access to markets for their local products and other infrastructure like good feeder roads to transport the merchandise and institutions for example to deal with legal matters to promote sustainable development and a successful microfinance.

- Also Stakeholders should recognize that microfinance is broader than the provision of credit. It includes a range of other financial services, such as savings, insurance and leasing. However, other non-financial services such as Business Development Services (BDS) and financial literacy are needed to fight all aspects of social and financial exclusion. Support for this will significantly enhance the operations of microfinance institutions (MFIs), which will in turn increase their impact, accelerating the inclusion process.

- A review of key existing microfinance programs, using recognized poverty assessment/wealth ranking tools, should be organized by Government and other stakeholders to determine the current poverty levels of clients presently being served to better meet their needs and to serve them better.

- There should be the creation of more safety-net programmes. These programmes could be in the form of conditional or non conditional cash transfer programme targeting the extreme poor, the elderly and the disabled. Safety net programmes should also have appropriate targeting mechanism to reach food crop farmers and also specific geographical areas where poverty levels are higher.

Also to allow for Microfinance industry to thrive, it Presupposes :

- Reassessing policies related to interest rates for small loans to ensure the viability of microcredit programmes and institutions in relation to the sustainability of the entrepreneurs supported.

- Defining the type of supervision needed for the sector that is proportional to the risk and adapted to the procedures of microcredit.

- Developing national credit reference systems enabling microcredit institutions to better assess risk.

- Considering the option to allow microfinance institutions to take specific forms of savings and tax incentivized investments as a source of funding.

These measures would have to be complemented by:

- A clear articulation between social protection and creation of microenterprises; these two objectives can be met if policies and programmes are developed that are complementary to each other and mutually reinforcing.

- Measures to ensure that the costs of the business development services needed to help micro-entrepreneurs and the self-employed succeed in a relatively complex environment are being met.

5.4RECOMMENDATIONS TO OTUASEKAN RURAL BANK

Prioritize Operational Efficiency

If Micro Finance Institutions are to have a sustainable impact on poverty eradication, they must be efficient, financially viable institutions that can develop the financial leverage to expand outreach at a sustainable level. Adequate attention must be given to business practices to make the Bank financially sustainable in a reasonable timeframe. Practical and efficient operation is essential in achieving self-determined development, as well as accountability to clients as well as donors. Some of the key principles of operational efficiency underscored in this study are:

Target the Poorest of the Poor: Microfinance is a means to poverty eradication, and not an end in itself. Efforts for operational sustainability must target not only the less poor capable of repaying loans, but include the otherwise marginalized poor.

Mobilize Savings: Savings services not only provide a valuable financial assistance to low-income clients, but they also strengthen institutional self-sufficiency, membership commitment to microfinance initiatives, and build a sense of discipline, self-esteem, and wellbeing. When funds are internally generated rather than borrowed from or granted by external sources, Micro finance Institutions (MFI) members become more invested and participatory in the prudential administration of savings towards credit and other MFI services. If priced correctly, savings instruments can contribute to capital mobilization and wider market coverage.

Client-Friendly Products and Practices: Otuasekan should also Develop a wide range of services and products relevant to the needs of people on low incomes and microentrepreneurs. There should also be a thorough analysis of Client Economics. In other words there should be a study of how clients use their loans, and how they use their inventory to generate profits.

Culture of innovation The bank should also Create a culture of innovation which can respond to the changing needs of the market.

Charge Interest Rates that Cover Operational Costs: Successful microfinance schemes are characterized by non-subsidized interest rates linked to competitive market rates. Interest rates should allow to sustain the MFI operation. The administration of many small loans, including processing and tracking services, is a costly operation. Consequently, Otuasekan Rural Bank need to charge higher interest rates than what commercial banks charge, yet can continue operations at rates that remain lower than the informal financial sector.

Market Research: Preliminary and ongoing research is an important investment for microfinance initiatives. Feasibility studies and ongoing research of the target population, geographic scope, and the local economy are vital to propose financial products and services that complement these realities. Market research helps to predict and control for costs (i.e. transportation or training), to better innovate and tailor services to the target population (i.e. develop effective selection, appraisal, and collection processes), and to maintain practical geographic coverage (i.e. ensure that loan officers are not over-extended and can have effective follow-up with clients).

Streamline and Decentralize Operations: Lean, simple infrastructures utilizing basic design of microfinance products facilitates administrative procedures and increases operational efficiency. Simple and clear savings and loans criteria, preferably based on traditional mechanisms, are also easily understandable by local people. When possible, computerization instead of manual administration of accounts helps to reduce administrative costs. Decentralization reduces costs associated with travel for collection and disbursement of funds, risks associated with transferring funds, and inefficiency associated with delays in communication.

Target Women: In Ghana, women are a better credit-risk than men and more responsible managers of meager resources. Furthermore, they are more committed to using their loans for the benefit of their household rather than self-gratifying consumption (as common among men). The most compelling reason for MFIs to prioritize women is to assist the poorest, who are disproportionately women.

Develop Monitoring and Assessment Tools: Credible and reliable mechanisms to monitor and evaluate MFI operations improve overall institutional efficiency and effectiveness. Assessment tools allow for the generation of systematic information to identify and address weaknesses in MFI services and management systems, streamline procedures, and improve the user-friendliness of programmes. Reliable monitoring also fosters accountability, raising the investment attractiveness of MFIs.

Reinforce Staff Training: Staff training improves operational efficiency, sustainability, and outreach. Training includes financial management, credit and savings management and methods, and alternative management information systems, using technological resources from the region when possible. Staff training creates social ties between staff members, and strengthens overall morale, loyalty, and the MFI's corporate identity. Trainers can train and develop a pool of trainers from the local population, who are familiar with local languages, customs, and norms. Typically, qualified trainers who are intimately familiar with the area and people perform better and are willing to accept sacrifices for the cause.

Confront Problems: Problems are inevitable, and when they do escalate, it is imperative to identify them and respond immediately before they become serious. This entails developing performance standards, monitoring tools, and institutional integrity to identify and address weaknesses and problems in their infancy.

Promote Networking and Cooperation: National and international actors should reinforce cooperation and coordination among actors at all levels in the design, management, and assessment of microfinance initiatives. Mechanisms should be created for the exchange of knowledge and experience among African microfinance practitioners, including the use of the Internet, dissemination of written material, field level practitioner exchanges, and best practice workshops. Regional coordinating committees and sub-regional conferences can bring together microfinance policy makers, leaders, and representatives from bilateral, multilateral and intergovernmental development partners to access and compare microfinance progress. Coordination among various microfinance actors also ensures complimentary rather than competing policies.

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QUESTIONNAIRE

My research question is on how microfinance practices contribute towards the alleviation of poverty. I would deeply appreciate your filling out this questionnaire to help me make vital analyses. Your privacy would be protected. You do not need to write your name or contact. Only the general results, conclusions and recommendations drawn from these analyses would be included in the final report and not the individual papers.

Background information about the respondent

1. Your age is between

a. 18-35 b. 36-45 c. 46-60 d. Above 60 e. Don't know

2. Sex of respondent a. male b. female

3. What kind of business are you engaged in?

a. Petty (includes small one off dealings) b. Trading c. Farming

d. Others (please state) ....

4. How long have you been in business?

a. 0-1 year b. 1-5 years c. 5-8 years d. Above 8 years e. Cannot remember

5. The number of family members: ...

6. Source of family income:
a. Wage b. Pension c. Addressed social assistance d. Income from business e. Income from agriculture i. income from rent
f. Other:.......

USE OF LOAN

7. Have you been granted a loan under any microfinance scheme for your business before?
a. Yes

b. No

8. If yes, for how long?

a. 0-1year b. 1-5 years c. 5-8 years d. Above 8 years e. Don't know

9. How many times have you been granted a loan under the microfinance scheme?

a. Once b. Twice c. Thrice d. More than four times

10.How much did you receive for the first time?

11.What is the total sum of your loans?:.....

12. Maturity of the loan was mainly:.....

13. Interest rates for loan were mainly:......

14. In what way did you invest your loan?:
a. Production equipment b. Transport facility c. Financing of the health costs d. Financing of the education expenditures e. Consumption
f. Purchasing of real estate g. Purchasing of good for reselling
h. Purchasing of the cattle i. Return of debt j. Other: .....

15. Did you have any problems paying back?

a. Yes b. No c. Sometimes
16.If yes, How did you repay your loan?
a. From additional income gathered from using credit
b. From wages c. From incomes of family members
d. Borrowing from relatives or friends e. Support of other members of the group

17. If No, How did you solve it?
a. Extend repayment period on agreement b. Get help from other sources
c. Repay with higher interest d. Did not pay back (defaulted) e. None of the above

18. How did loans impact on your business?
a. Very good b. Good c. No impact d. Bad e. Very bad

19. In what way did you use the profits of your loan?
a. Expanding of the business b. Consumption c. Other:....

20. Your monthly income before the loan. Sum:

21. How did your income change after using the loan?
a. Increased b. No change c. Decreased

22. Your income now. Sum:

23. What kind of assets had your family had before getting the credit?

24. What kind of assets did your family get after using credit?
25. Would wish to have more money to borrow given the opportunity and why?

26. Do you have any regret for obtaining the loan?
a. Yes .....mention...
b. No
c. Don't know
27a. Would you like to obtain another loan?
a. Yes
b. No
c. Don't know

27b. Why?

SAVINGS
33. Do you save in a bank?

WOMEN EMPOWERMENT
25. Has this loan or savings helped to empower you? a. Yes b. No

26. In relation to men in your community, are well women better off than men?
a. Yes b. No c. Don't know

27. Are you able to take decisions independently in your family after taking the loan?...........

28. Do you perceive microfinance loans to be an important contributor towards alleviation of poverty.

EDUCATION
29.Are you able to sponsor your children's education ?........
30.To what level have you been able to sponsor your child's education
30b.From what source do you do this. A. loan B. Savings C. Both D.none

31. Any comments or questions? ______________________________

MANAGEMENT STAFF

32.Does the Bank have Microfinance Programmes in place?
33. What are they?
34. How are the programmes administered?
35.What are the conditions that clients must meet?
36. What is the repayment rate of your Micro loans?
38. What is the default rate?
39. Are there any risk management policy to reduce the default rate?

Thank you for your time and patience in answering these questions.