**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,**

**KUMASI**

**SCHOOL OF BUSINESS**



# ASSESSING THE IMPACT OF MICROFINANCE ON POVERTY REDUCTION IN THE KUMASI METROPOLIS

**BY**

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**A THESIS SUBMITED TO THE BOARD OF GRADUATE STUDIES, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, SCHOOL OF BUSINESS, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF BUSINESS ADMINISTRATION (MBA MARKETING)**

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# DECLARATION

I hereby declare that except for specific references which have been dully acknowledged, this project is the result of my own research and it has not been submitted either in part or whole for any other degree elsewhere.

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## DEDICATION

I dedicate this work to my dear parents, Mrs Vida Pokuaa Tabiri and Mr. Frank Ofosu Tabiri, my dear wife, Mrs. Mavis Adjei Tabiri and my daughter, Nathania Pokuaah Tabiri

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## ABSTRACT

In Ghana, Microfinance Institutions (MFIs) are recognized as important development instruments in the fight against poverty. This recognition has paved way for establishment of microfinance institutions. This current study assesses the impact of Microfinance Institution on poverty reduction in the Kumasi Metropolis. The study adopted a descriptive research design and purposively sampled 338 loan beneficiaries from Multi Credit Savings and Loan Limited, First Allied Savings and Loans Limited, Opportunity International Savings and Loans limited and Sinapi Aba Trust Savings and Loans Limited in the Kumasi Metropolis. The study showed economically active poor had more access to finance as a result of the introduction of microfinance schemes. However, microfinance had not entirely removed all barriers to access finance. Microfinance institutions had improved incomes of the economically active poor, consumption of durable items (such as fridge, TV/ video player and stove/ cookers), health care and education among economically active poor household. The major challenges facing microfinance institutions were high rate loan repayment default and poor data of the clients. It was recommended that loan application form and other documentation as requirement for loan should be simplified. It was recommended that microfinance institutions in the Kumasi Metropolis should be encouraged and assisted to extend more loan to economically active poor. The stakeholders in microfinance industry should assist the industry to develop improved and adequate data on client for easy identification of clients.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

Poverty has been high in Ghana, though Ghana has been adjudged one of the richest countries in Sub Sahara Africa (Yeboah, 2008). Poverty is inability to provide food and shelter (World Bank, 2002). Poverty is described in Ghana as inaccessibility to medical doctor, lack of portable water, not able to afford three square meal a day, powerlessness, lack of representation and freedom. Poverty is viewed as incapability to achieve the minimum living standard (DuyKheet. al., 2003).

Many strategies have been put forward with the main objective of reducing poverty in the developing countries such as Ghana. Governments of Ghana have been adopting policies such as Structural Adjustment Programme (SAP) and Economic Recovery Programme (ERP) and Programme of Actions to Mitigate the Social Costs of Adjustment **(**PAMSCAD) aimed at reducing poverty but these have not been

successful.

Microfinance schemes have been identified by Governments and international development agencies as a new strategy for poverty reduction. Microfinance focuses on people without access to formal banks. Therefore with Microfinance those who hitherto were not having access to traditional banks would now have access to credit facility (Parveen, 2005). There is currently no study as to whether microfinance has achieved its intended motive of poverty reduction in Kumasi Metropolis and the study therefore assessed the impact of Microfinance on poverty reduction in Kumasi Metropolis of Ashanti Region of Ghana.

## 1.2 Statement of the Problem

In Ghana, Microfinance Institutions (MFIs) have been regarded as essential institutions helping to reduce poverty. This recognition has paved way for establishment of microfinance institutions such as Sinapi Aba trust, Multi Credit Savings and Loans Limited, Opportunity International Savings and loans Limited and First Allied Savings and Loans Limited in Kumasi Metropolis in particular. The Microfinance Institutions in Ghana have relatively less stringent procedures and documentations and they are friendlier to the poor than the traditional banks (World Bank, 1994). This in the view of World Bank (1994), makes the poor more comfortable and confident to access financial services from Microfinance Institutions. Individuals, especially the poor and small and medium scale enterprises in Kumasi Metropolis have benefited from the services of these microfinance institutions through their loans, savings and educational activities and this has improved access to banking for the poor in the Metropolis and less privileged who hitherto were not having access to banking (Parveen, 2005).

A number of impact assessment studies such as Holden (2005), Wright (1999) and Dunn and Arbuckle (2001) on the performance of microfinance projects have been undertaken in recent years, with varying and revealing results. According to studies by Holden (2005) in Ethiopia, Microfinance has had positive change in per capita consumption expenditure of participants of MFI but the impact was not statistically significant whiles a study by Wright (1999) indicated that MFI has improved working capital of economically active poor, investment in fixed assets, selfemployment and income of the poor. Also, study by Dunn and Arbuckle (2001) indicated that MFI has had little positive change in alleviating poverty.

Therefore, Governments, practitioners and stakeholders of microfinance are uncertain about the nature and extent to which microfinance has reduced poverty among the poor (Dunn &Arbuckle, 2001, Hulme, 2000). As part of policy, stakeholders in microfinance have been interested in knowing the extent to which these credit interventions by microfinance institutions had impacted on the beneficiaries and subsequently poverty reduction in Kumasi Metropolis. Therefore, there is the need to assess the nature and the extent to which microfinance institutions have reduced poverty among the poor in Kumasi Metropolis, using data from Kumasi Metropolis.

### 1.3 Objectives of the Study

The general objective of the study was to assess the impact of Microfinance on poverty reduction in Kumasi Metropolis.

The study specifically considered the following objectives:

1. To evaluate the level of access to finance among the poor in Kumasi Metropolis.
2. To assess the nature and extent of poverty reduction among the clients of microfinance institutions within Kumasi Metropolis.
3. To assess the prospects and challenges facing Microfinance Institutions in Kumasi Metropolis.

## 1.4 Research Questions

1. What is the level of access to finance among the poor in Kumasi Metropolis?
2. What is the nature and to what extent microfinance institutions have been able to reduce poverty among its clients within Kumasi Metropolis?
3. What are the prospects and challenges facing Microfinance Institutions in Kumasi Metropolis?

## 1.5 Significance of the Study

Currently, there is a lack of specific operational solutions and recommendations that Microfinance operators and the stakeholders in Ghana can adapt to help microfinance institutions to optimize their impact on poverty reduction in Kumasi Metropolis. This study was particularly important, as the topic is of relevance to Microfinance operators and stakeholders in microfinance and Government of Ghana since the study aims at providing recommendations on approaches to maximize the impact of MFIs on poverty reduction in Kumasi Metropolis. The study intended to provide an overview of the prospects and challenges facing microfinance institutions in Kumasi

Metropolis and potential solutions to the challenges that would be identified.

Moreover, the study would help microfinance institutions in Kumasi Metropolis to know on whom to focus and therefore help to determine whether or not microfinance institutions are focusing on their core target groups or not. This would help microfinance institutions in Kumasi Metropolis to redesign strategies to help improve access to banking and capital to the poor and less privileged in Kumasi

Metropolis.

This study would further add to our knowledge on the impact of MFI on poverty reduction among poor in Kumasi Metropolis.

### 1.6 Scope of the Study

Kumasi metropolis, Ashanti Region, Ghana was chosen for the study. The study focused on impact of microfinance on poverty reduction in Kumasi Metropolis. The study would therefore establish the correlation between micro credit and poverty reduction in Kumasi Metropolis.

### 1.7 Limitation of the Study

The shortfall in the work was the busy scheduled of management staff of the selected microfinance institutions to give detailed opinion on the challenges and prospects of microfinance institutions in the Kumasi Metropolis. Some of the loan beneficiaries were not interested to give needed information, especially information on loan amount received and income of the beneficiaries.

Where the loan beneficiaries felt reluctant in disclosing some useful information for the study, the researcher explained the rationale behind the study to them. Where there were some form of denial and false information during the fieldwork, the researcher was able to convince them. They were made to understand the purpose of the study that it was not for any other personal reasons. Therefore, the limitations did not have any meaningful adverse effects on the study and the study therefore reflected the reality of the impact of microfinance institutions on poverty reduction in the Kumasi Metropolis.

## 1.8 Organization of the Study

The chapters of the study were five. Chapter one talks about introduction, the statement of the problems, and justification of the study, objectives and organization of the study. The second chapter provided extensive review of related studies on the work.

Chapter Three gave overview of methodology which included the design to use in the study. Chapter Four shows the data presentation and discussion of the findings of the data collected from the field. Chapter Five looks at the findings, conclusions and recommendations.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter reviews literature related to microfinance and poverty reduction. It specifically considers definitions of microfinance, overview of microfinance, roles of microfinance, access to finance by the poor and challenges facing microfinance. The study further reviews definitions of poverty, trend of poverty, indicators of poverty and effects of microfinance on poverty reduction.

## 2.2 Definitions of Microfinance

Microfinance is offering banking services to the less privilege in the society (Otero, 1999). These services include savings and credit and others like insurance (Ledgerwood, 1999). Putzeys (2002) suggests other financial services to include money transfers. Microfinance therefore goes beyond the access to and the distribution of money. It enters into the deeper issue of how money is used, invested and how savings are done. Microfinance is not only provision of financial services but providing financial access to the economically active poor.

Microfinance gives economically active poor access to micro deposit and loan which are ignored by formal banking (Schreiner & Colombet, 2001). According to Hagan and Martins (2004), microfinance include financial institutions other than the traditional ones that render a wide range of financial and other complementary services (savings, insurance, money transfer, et cetera) to both the poor and the rich that require them (the services).

From the above definitions, the study considers Microfinance Institutions as all types of financial institutionsother than the traditional ones that render a wide range of financial and other complementary services such as savings, loan, insurance and money transfer to the economically active poor.

### 2.2.1 Microfinance in Ghana

The poor have been relying heavily on the informal and semi-formal banking system even before the introduction of formal banking system in Ghana (Egyir, 2010). The informal and semi-formal banking system in Ghana was to offer socio- economic assistance to the poor (Egyir, 2010).

Various loan schemes were created by Government of Ghana in the 1950s with the goal of assisting the economically active poor with finance. Banks such as National Investment Bank (NIB) and Agricultural Development Bank (ADB) were created in 1960s. Commercial banks, especially the Ghana Commercial Bank created micro credit schemes. Egyir (2010) observed with regret that these banks diverted their focus on housing sector and ignored the economically active poor. This created mass concern which led to creation of rural banks, with first rural bank at Agona Nyaakro in the Central region of Ghana. The concept of rural banks was community owned and managed (Asiama & Osei, 2007).

Canadian Catholic Mission established the first credit union in Northern Region of Ghana (Egyir, 2010). Microfinance is characterized by the term Susu (that is small deposit) in Ghana, though the is term was originated from Nigeria (BoG, 2007).

The microfinance has undergone through changes due to various financial liberation and reforms. These include:

1. Affordable credit provision in 1950s.
2. Creation of Agricultural Development Bank (ADB) in 1965 to support agricultural sector.
3. Creation of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
4. Liberation of financial sector which began in 1986.
5. Creation of non-banking financial institution like savings and loans, cedit unions, microfinance institutions.

The above policies yielded fruits and have created three main groups of microfinance institutions in Ghana.

1. Formal suppliers. This includes rural and community banks, as well as some development and commercial banks;

2. Semi-formal suppliers like savings and loans companies, credit unions, financial non-governmental organizations (FNGOs), and cooperatives; and

3. Informal suppliers like susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals.

#### 2.2.1.1 Stakeholders in Microfinance in Ghana

The stakeholders in microfinance in Ghana include the following: target clientele, suppliers of microfinance and the facilitators such Government of Ghana (GoG) and donor agencies.

##### 2.2.1.1.1Target Clientele

The target clientele of microfinance can be classified as micro and small-scale enterprises in the informal sector; unemployed youth; subsistence and small-scale producers in the agricultural sector.

##### 2.2.1.1.2 Suppliers of Financial Services

The microfinance can be grouped into formal, semi-formal, informal organizations and donor funded projects. The formal microfinance institutions in Ghana include rural and community banks, commercial banks with interest in microfinance (that is Agricultural Development Bank, Social Security Bank and Metropolitan and Allied Bank).

The semi-formal microfinance institutions are those operating under the non-banking institution law or any other appropriate authority to provide financial intermediation services alongside social intermediation activities. The semi-formal banking institutions include Credit Union, Savings and Loans Companies, Co-operatives and non-governmental organization such as Action Aid (Aryeetey, 1996).

The informal financial institutions are those not regulated by Bank of Ghana (BoG) or any other formal public entity. They include Susu collectors and money lenders.

Among the suppliers of microfinance highlighted above, the study focuses on the semi-formal microfinance institutions and savings and loan institutions in particular.

This is because, the savings and loans institutions are well regulated by Bank of Ghana (BoG) and appropriate authorities and more recognized as major providers of microfinance in Ghana (Aryeetey, 1996). Savings and Loans Companies are regulated under the Non-Bank Financial Institutions (NBFI) Law 1993

(PNDCL 328).

**2.2.1.1.3 Government of Ghana as a facilitator**

The Government of Ghana's role in microfinance is to provide the enabling environment to promote sustainable growth of microfinance in Ghana. The Government is playing this role through policy design and initiatives; institution of laws and legal framework for the micro finance sector; mobilization of financial resources and technical assistance from the donor community.

**2.2.1.1.4 Donor support for Microfinance Sub-sector in Ghana**

The donor supports for microfinance sub-sector in Ghana come from the European Union (EU), World Bank (WB), United Nations Development Programme (UNDP), United States Agency for International Development (USAID), Danish International Development Agency (DANIDA), Canadian International Development Agency (CIDA), International Fund for Agricultural Development (IFAD) and Government of Japan.

Supports have been the provision of grants by these agencies and Governments, with the aim of building the human resource and technical capacities of the microfinance in Ghana and making funds available to the poor.

### 2.2.2 The Roles of Microfinance Institutions

Microfinance plays very important roles in every economy and the roles, according to Quaraishi (2007) are categorized into three as:

1. Microfinance assists less privilege households to meet their basic needs.
2. It improves economic wellbeing of household and,
3. It empowers women by providing working capital for them.

Adongo and Stock (2005) suggest that microfinance enables low-income households to engage in pre-entrepreneurial activities and micro-enterprises to increase their livelihoods. This in turn has positive implications for the macro economy (Adongo & Stork, 2005). African Development Bank (ADB) (2003) indicates that microfinance is an effective strategy for poverty reduction. Access to services of microfinance enables the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life (ADB, 2003). Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development (ADB, 2003). African Development Bank (2003) emphasizes that microfinance creates accesses to banking for the poor which improves the ability of the poor to actively participate in and benefit from the development opportunities.

De Soto (2000) suggests that the safe and convenient savings facilities provided by microfinance institutions enable low-income households to transform their nonfinancial assets into more liquid, high-yield forms that may eventually serve as collateral for larger loans. In addition, microfinance enables low-income households to save funds for future use and build credit history. This is of particular importance as many low-income households lack the types of collateral acceptable by traditional banks that are required to access loans from this source of finance. The savings facilities serve as cash collateral for future loan for the economically active poor.

The loan facilities provided by microfinance institutions enable the poor to borrow funds to cover various short-term financial needs, particularly the working capital. These needs also include financial costs incurred during pre-start-up training, planning and start-up phases in the micro-enterprise life cycle. Microfinance can also be used to cover the financial costs of further training and to meet other unforeseen circumstances (Robinson, 2003 & Mushendami, et al. 2004). Microfinance loan facilities enable micro-enterprise owners to use anticipated income for current investment. This reduces the vulnerability of the micro-enterprise to various shocks and stabilises the income stream for the micro entrepreneur. The reduced vulnerability promotes the sustainability of the micro-enterprise to the extent that this loan is used to acquire capital (physical or human), which yields a rate of return in excess of the cost of the loan. Thus microfinance enhances the income of micro entrepreneurs and increases the chances of diversification or expansion of business activities of the economically active poor.

It is obvious from the above that microfinance plays very important roles in the fight against poverty through the following means:

1. Mobilizing of savings for financial intermediation, with emphasis on the economically active poor.
2. Provision of loanable fund for the economically active poor
3. Creation of employment opportunities for the poor.
4. Involvement of the poor in the socio-economic development of the country (Egbu, 2006).

### 2.2.3 Access to Finance among the Poor

Richardson (2008) defines access to finance as ease with which individuals and businesses can access financial services such as credit, deposit, payment, insurance and any other services. Individuals who have no access to financial services are normally referred to as unbanked whiles individuals with little access are referred to as underbanked (Richardson, 2008). The poor are usually unbanked or underbanked

(Richardson, 2008).

Cai and Banga (2014) noted that about 2.5billion people in the world do not have access to banks. The unbanked and underbanked are poor economically actively people who are making necessary efforts to feed their families through operation of small scale enterprise. Therefore their exclusion from financial services service to impediment to fight against poverty (Cai & Banga, 2014).

Report by Demirgüç-Kunt et al (2007) revealed that about 80% households in Western Europe and North America have an account with a financial institution. In Central Asia and Eastern Europe 60 to 80% are estimated to have accounts with financial institutions, with Latin America exhibiting variation ranging from less than 20% in Nicaragua to more than 60% in Chile. World Bank (2006) indicates that about 40% of households have deposit accounts, 20% have outstanding loans, and only 15% having insurance account in rural India. Demirgüç-Kunt, et al., (2008) have indicated that in Sub-Saharan African countries, fewer than 20% have an account with financial institutions with exception of Botswana, Gambia and South Africa. More than 60% of households in Gambia, Botswana and South Africa have an account with financial institutions.

From the above, huge number of people, especially the poor remains unbanked and underbanked and it was against this backdrop that the concept of microfinance was introduced as a means to improve financial access among the economically active poor to reduce poverty. According to Microcredit Summit Campaign Report (2007), the introduction of microfinance institutions has contributed to the growth of 885 percent in the number of clients from 1997 to 2006 – an average annual growth rate of 29 percent per year. The clients are among the “poorest,” an income segment that traditional banking institutions have long considered unbankable (Daley-Harris, 2009).

Still, there are substantial gaps in financial access. Fees, costs, and documentation requirements serve to limit financial access. Beck, Demirguc-Kunt and Peria (2006) report on a survey of largest commercial banks in a large sample of countries, indicates that documentation and bank charges are the major barriers to financial access among the poor. The survey shows critical variations across countries in the degree of physical access to traditional financial institutions, documents required to maintain accounts, and costs (e.g., minimum balance requirements and fees).

#### 2.2.4 Challenges facing Microfinance in Ghana

The Microfinance sector faces number of challenges and these include lack of coordination and collaboration, high rate of loan default, inadequate skills and professionalism, high rate of client exit and inadequate capital (BoG, 2012).

##### 2.2.4.1Inadequate Human Resources Capacity

Various stakeholders such as Bank of Ghana and the apex bodies in the industry organize training with the aim of upgrading the human resources of the sub- sector. However, the staffing and competency level being achieved with these training programmes is still below what is desired. Thus, the human capacity of MFI needs to be enhanced for effective and efficient microfinance operations. The random and incoherent nature of training programmes has probably hampered the achievements of the projected for the sub-sector.

The current microfinance Apex bodies lack an adequate in-house trainers and/or facilitators as well as in-house monitoring and evaluation units to continually measure progress of their training activities consistently over time (BoG, 2012).



#### 2.2.4.2 Collaboration and Coordination

There is no national body which is responsible for coordinating all activities associated with microfinance, nor is there a forum for dialogue among stakeholders on policy and programme issues. As a result there is lack of coherent approach, fragmentation, duplication and inadequate collaboration between and among member bodies and stakeholders.

In this regard, the role of GHAMFIN as an umbrella body for microfinance apex institutions, as well as their member institutions, needs to be strengthened to ensure the transfer of best practices and setting of standards for the industry. The existing institutional structure does not include all practitioners and service providers, and needs to be addressed.

#### 2.2.4.3 High Rate of Client Exit

The microfinance sub-sector faces high rate of client exit (Pawlak&Matul, 2004). The high rate of client exit undermines the efforts of microfinance institutions to establish and maintain long term banking relationship with clients which is necessary for healthy growth of the sub-sector. Clients exit increases the microfinance cost structure, discourages other clients and reduces prospect for sustainability. The clients exit may be as a result of poor services provided by microfinance, poor relations with staff and negative public perception about microfinance institutions

(Copestake 2002).

#### 2.2.4.4 High Rate of Loan Default

The microfinance institutions face problem of inadequate clients' data and unreliable information on the clients. Know your customer (KYC) system is not effective in most microfinance institutions and this makes it difficult to identify clients with ease. Moreover, most microfinance institutions lack the ability to properly assess clients for loan and are liberal in terms of security or collateral for loan (BoG, 2012). This has resulted in high rate of loan default. Most clients run away after taking loan facility, making the industry more vulnerable and unsustainable.

## 2.3 Definitions of Poverty

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 (Sida, 2005). 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 information about income-earning opportunities (Sida, 2005).

Hulme and Mosley (1996), define as all forms of deprivation. Poverty includes lack of income and material things, social inferiority, powerlessness and isolation.

The World Bank (2002) sees poverty as hunger and lack of shelter. This definition is expatiated by Vietnam (1999) by given meaning to the word ‘hunger’ and phrase ‘ lack of shelter’ to include poor households living in unstable houses, often made with mud with no TV or radio, aren’t able to save money, having children who can’t go to school, or have to leave school prematurely. Poverty includes lack food for one to two months per year, inability to utilize surrounding natural resources for personal gain and lack of access to potable water (Vietnam, 1999). This definition has been reinforced by Nkum and Ghartey (2000) by indicating that poverty is material lack and need for shelter, assets, money and often characterized by hunger, pain, discomfort, exhaustion, social exclusion, vulnerability, powerlessness and low selfesteem.

Moreover, Sen (1999) viewed poverty as a “deprivation of capabilities”. This according to Sen (1999) is where a person lacks the “subsistence freedoms” that he or she needs to lead the kind of life he or she values. This freedom has two phases as freedom to utilize opportunity and freedom to security. There are lots of opportunities that avail themselves at any point in time and these include education and a range of political and economic freedoms. In the view of Sen (1999), the inability to make use of the existing opportunity is poverty. Moreover, security is viewed as a consequence of effective utilization of the opportunities provided to a person.

World Bank (2002) defines poverty in monetary terms and identifies people as extremely poor, moderately poor and relatively poor. People in extreme poverty are the poorest people in the world and their total income that is less than $1 United States Dollars (USD) per day. This means that extremely poor can hardly meet their minimal needs for survival. These people have little chance to survive from year to year, since they have little or no ability to feed themselves.

Moderately poor generally have access to the basic necessities of life, but they do not have much of them. They generally lack the resources to educate their children, save for their future, and invest in improving their infrastructure. Moderate poverty may not be marked by a constant struggle for survival, but it is nonetheless a state in which it is very difficult for individuals to progress. People, whose income is below

$2 per day, but above $1 per day, are considered to be in moderate poverty (World Bank, 2002).

Relative poverty is however defined in comparison with other people in the area. A relatively poor person has income less than another person and does not have the income required to access much recreation and entertainment.

This study adopts the definition poverty by World Bank (2002) and defines poverty as lack of what is necessary for material well-being, especially food, shelter, education, potable water and clothing. Moreover, poverty can be extreme, moderate and relative and comparatively, between two persons, there is a poor person. However, from the definitions, what is of great concern is not relative poverty but extreme poverty and sometimes moderate poverty. Every nation, especially developing nations like Ghana is faced with challenge of fighting extreme poverty.

### 2.3.1 Trend of Poverty in Ghana

In Ghana, poverty has been measured in many ways. Previously, poverty was measured by calculating household consumption and expenditure levels, and establishing nutrition-based income measured poverty lines. Another method was the use of qualitative consultations, such as the 'voices of the poor' exercise. In the 1990s, Ghana statistical Service (GSS) provided another robust method called absolute poverty line (GSS, 1999). The GSS calculated two poverty line based on data from the Ghana Living Standards Survey (GLSS, 1998/99). These two poverty lines in monetary terms are translated as ¢700,000 per adult per year (approximately

US$100) and ¢900,000 (approximately US$129) in 1998/99.

On the basis of poverty line, there was a positive sign in poverty in 1999 as Ghanaians defined as poor fell from 52% in 1991/1992 to 40% in 1998/1999. During the same period, the lower poverty line recorded a fall from 37% to 27%. However, the spread in positive improvement in poverty was not uniform because only Accra and the rural forest ecological zones recorded a substantial decrease in poverty whiles the rural savannah areas experienced a rise in poverty when measured against the lower poverty line (Ghana Statistical Service, 1999). The uneven distribution of improvement in poverty was due to occupational pattern (GLSS IV, 1998/99). For example, incidence of poverty fell by 6% over the period 1991/92 to 1998/99 for those engaged in food-crop farming , whiles it fell by 23% and 15% for those engaged in export farming and wage employment in the private sector respectively. Poverty incidence of those engaged in non-farm self-employment fell by 7% over the period, although this should be viewed in the context of increasing numbers of people engaging in this sector.

After 1990s, the poverty lines have been obtained from the Accra poverty line for 1998/99 by using data on the Consumer Price Index (CPI, hereafter) which has been computed by the Ghana Statistics Services separately for Accra, other urban areas, and rural areas. That is, the poverty lines were computed using various CPI indices going backward at times for the 1991/92 poverty lines, and forward at times for the 2005/06 poverty lines, starting from the Accra line in 1998/99. From the computation, the share of the population in poverty fell to 28.5 percent in 2005/06.

Poverty in the year fell by about 16 % in urban areas and by 23% in rural areas.

However, the survey by Diallo and Wodon (2007) through the Core Welfare Questionnaire Indicators (CWIQs) identified quite a different trend in poverty in Ghana. According to 1997 CWIQ survey, Diallo and Wodon (2007) obtain poverty estimates for urban and rural areas at 55.2% and 25.0% respectively. These estimates are a bit higher than the 1998/99 estimates for urban and rural area by GSS.

From the above trend, population in poverty decreased by almost half between 1991/1992 and 2005/2006. This suggests that Ghana is on path of reducing poverty by half versus its level of the early 1990s well below the Millennium Development

Goals.

### 2.3.2 Indicators of Poverty

The complexity of poverty has led to the development of various forms of poverty indicators. Economists have given much attention to the functional form of poverty measurement which responds to changes in distribution below the poverty line. Ravallion (1998) defined poverty line as monetary cost to a given person, at a given place and time, of a reference level of welfare. People who do not attain the level of welfare are regarded as poor whiles those who do are not regarded as poor

(Ravallion, 1998).

UNDP Human Development Report (1998) has given poverty indicators as shown in the Table 2.1.

**Table 2.1: Poverty Indicators**

| Measures | Components |
|---|---|
| Human Development Index | Life expectancy at birth, adult literacy, educational enrolment and GDP per capita |
| Gender related Development Index | Life expectancy at birth, adult literacy, educational enrolment and GDP per capita, adjusted for gender differences |
| Gender empowerment index | Seat in parliament held by women, female professional and technical worker, women share of earned income |
| Human Poverty Index (Developing Countries) (HPI-1) | People not expected to survive to 40 years, illiteracy, access to safe water, access to health service, underweight children |

| | |
|---|---|
| Human Poverty Index (Developing Countries) (HPI-2) | People not expected to survive to 60 years, functional illiteracy, population below the mean income, long term unemployment |

**Source: UNDP Human Development Report, 1998**

Out of the five poverty indicators byUNDP Human Development Report (1998) (see Table 2.1), the study focuses on the Human Development Index and Human Poverty Index (Developing Countries) (HPI-2). This is because the components of the selected indicators are more relevant to the study. The study focuses on the impact of microfinance on poverty reduction by looking how micro loans have impacted on income and other income related variables like savings, working capital, employment, health, educational enrolment of children and food and non food consumptions of the loan beneficiaries.

### 2.4 Effects of Microfinance on Poverty Reduction

Microfinance has become an important development policy and a poverty reduction tool. Littlefield et al. (2003) and World Bank (2010) argue that microfinance is a key tool to achieve the Millennium Development Goals (MDGs). The assumption is that if one gives more micro credit to the economically active poor, poverty will be reduced.

The evidence that microfinance reduces poverty is challenging and controversial due to the difficulty in relation to reliability and affordability of funds. It is no doubt that the impact of microfinance is more specific than general dimensions (Brau & Woller, 2004; Hulme, 2000; Makina & Malobola, 2004). Questions regarding the impact of microfinance on the welfare and income of the poor have therefore been raised many times (Copestake, 2002).

Some studies have shown weak, little or no significant impact of microfinance on poverty reduction. A study by Roodman and Morduch (2009) on the impact of micro-credit on poverty reduction in Bangladesh, found that 30 years into the microfinance movement have had little solid evidence that it improves the lives of clients in measurable ways. A study by Karlan and Zinman (2010) affirms the finding of Roodman and morduch (2009) by indicating that there is no strong link between access to microfinance and poverty reduction for the poor. Buckley (1997) conducted a study in three different countries, namely Kenya, Malawi and Ghana, on the impact of microcredit on poverty reduction. His study sampled 300 households in Kenya, 160 households in Malawi, and 150 households in Ghana. Buckley (1997) observed that there was little evidence to suggest any significant and sustained impact of microfinance on beneficiaries in terms of micro-entrepreneurs graduating to higher operations, increased income flows or level of employment. A similar study was conducted by Diagne and Zeller (2001) in Malawi and found that microfinance did not have any significance effect on household income.

However, despite some commentators' doubt on the impact of microfinance on poverty, some studies have shown that microfinance has been successful in reducing poverty. Kondo (2007) and Kondo et al (2008) studies on the impact of micro credit on poverty reduction in rural Philippines found that microfinance has significantly impacted on welfare outcomes and thereby on poverty alleviation. Littlefield, Murduch and Hashemi (2003) have indicated that various studies on impact of micro credit on poverty reduction have found that micro credit increase income and assets, and decreases vulnerability of the poor. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all shows very positive impacts of microfinance in reducing poverty. For instance, a report on a SHARE project in India showed that three-quarters of clients saw "significant improvements in their economic well-being and that half of the clients graduated out of poverty"

(Littlefield, Murduch and Hashemi 2003).

Dichter (1999) states that microfinance is a tool for poverty reduction and indicates that the major impact of micro credit is on consumption smoothing and redistribution of wealth. Hulme and Mosley (1996) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed microfinance programmes can improve the incomes of the poor and can move them out of poverty. Hulme and

Mosley (1996) state that there is clear evidence that the impact of a loan on a borrower's income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the middle and upper poor.

The on-going debate has necessitated the need to assess the impact of microfinance on poverty reduction in Kumasi Metropolis in Ghana. The study is specific to Kumasi Metropolis and would help end the doubt about the impact of microfinance on poverty reduction in the metropolis.

**2.5 Summary of Literature Review**

Microfinance is all types of financial intermediation services other than the traditional ones that render a wide range of financial and other complementary services such as savings, loan, insurance and money transfer. Microfinance can be grouped intoformal, semi-formal, informal organisations and donor funded Projects. However, this study focused on semi-formal organization in general and savings and loans in particular.

The microfinance is believed to have positive impact on poverty reduction and it is seen as modern tool of fighting poverty in developing countries like Ghana. The contribution of microfinance to poverty reduction has attracted debate with varying revealing impacts. Some scholars have the view that microfinance has had little or no impact on poverty reduction whiles others have the view that microfinance had significantly contributed to poverty reduction. This on-going debate has necessitated the need to conduct a study on impact of microfinance on poverty reduction in

Kumasi Metropolis to ascertain the true impact of microfinance on poverty reduction in Kumasi Metropolis.

## CHAPTER THREE

## METHODOLOGY AND ORGANISATIONAL PROFILE

### 3.1 Introduction

This chapter highlights on methods employed to collect and analyze the data and the profile of the selected institutions for the study. The chapter covers the research design, population of the study, sample techniques and procedures, sample size, data collection instrument, data analysis and presentation, validity and ethical consideration.

### 3.2 Research Design

The study adopted a descriptive research design. This is because descriptive research design helps to describe characteristics of respondents and to determine the relationship between variables (Rog, 1998). In this study, with the help of descriptive research design, characteristics of micro credit beneficiaries were described and the relationship between micro credit and poverty reduction in Kumasi Metropolis was determined.

### 3.3 Population of the Study

The population of this study was the clients of Microfinance Institutions within Kumasi Metropolis which have operated for at least ten (10) years. The study focused on the clients of Multi credit Savings and Loans Limited, Opportunity International Savings and Loans Limited, Sinapi Aba Savings and Loans Limited and First Allied Savings and Loans Limited, all in the Kumasi Metropolis. This is because these institutions have operated in the Kumasi Metropolis for at least ten
(10) years and have special product (loan product) designed to meet the needs of the poor. The total population of the study is thirty three thousand nine hundred and forty

(33,940) and this shown in Table 3.1.

**Table 3.1: Loan Beneficiary Population of Selected Microfinance Institutions**

| Institutions | Total loan beneficiary Population |
|---|---|
| Multi Credit Savings and Loans Limited | 6919 |
| First Allied Savings and Loans Limited | 8120 |
| Opportunity International Savings and Loans Limited | 10,911 |
| Sinapi Aba Trust Savings and Loans Limited | 7990 |
| **Total** | **33,940** |

**Source: Management of Selected Microfinance Institutions, 2014**

### 3.4 Sampling Techniques

The study employed purposive sampling techniques to select the MFIs and the respondents of the study. The study purposively selected Multi credit savings and loans Limited, Opportunity International Savings and Loans Limited, Sinapi Aba Savings and Loans Limited and First Allied Savings and Loans Limited in the Kumasi

Metropolis. The study purposively selected these Microfinance Institutions on the basis of years of operation and nature of product. These microfinance institutions have been in operations in Kumasi Metropolis for at least ten (10) years and have special loan product designed to meet the needs of the poor. The study then selected one branch each of these selected microfinance institutions on the basis of years of operation.

The respondents of the study were purposively selected and they were loan beneficiaries of the branches of microfinance institutions in Kumasi Metropolis selected for the study. It is important to indicate that it takes time for loan to impact on the wellbeing of the beneficiaries, thus the study purposively considered clients who have benefited from loan facility from these microfinance institutions for at least one year.

### 3.5 Sample Size

To determine the sample size for each institution, the study employed quota sampling method. Leedy and Ormrod, (2001) asserted that rather than sampling a large number of respondents with the view of making generalizations, research tends to select few respondents who can best shed light on the phenomenon. In view in of this, the study set the quota at 1% of the economically active poor loan beneficiaries' population in each institution. Therefore the study sampled 338 respondents (see Table 3.2 for details).

**Table 3.2: Quota Sample Size**

| Institution | Total loan beneficiary Population | Calculated Sample Size | Used Sample Size |
|---|---|---|---|
| Multi Credit | 6919 | 69.19 | 69 |
| First Allied | 8120 | 81.20 | 81 |
| Opportunity International | 10,911 | 109.11 | 109 |
| Sinapi Aba Trust | 7990 | 79.90 | 79 |
| Total | 33940 | 339.4 | 338 |

**Source: Author's Construct, 2014**

### 3.6 Research Instruments

The selection of data collection tools and methods is very significant in research both scientific and social. This is due to the fact that the choice of an appropriate tool offers adequate flexibility in addressing respondents differently while investigating into the phenomenon understudy. The data collection instruments employed for the study were structured questionnaire for loan beneficiaries and interview guides for management of the selected microfinance institutions in Kumasi Metropolis.

However, analyses were mostly based on the loan beneficiaries' questionnaire. Majority of the questions were pre-coded with multiple choice responses. Other questions were open ended seeking respondents to provide a specific response. The loan beneficiaries' questionnaire was made up of four sections (for detailed questionnaire, see appendix 1);

1. Characteristics of loan clients (sex, year of experience in business and educational attainment and income level).
2. Access to credit by poor in Kumasi Metropolis before and after microfinance intervention.
3. Comparison of poverty level before and after participation in microfinance intervention.
4. Challenges facing loan clients in accessing loan and its repayment in Kumasi Metropolis.

Moreover, the interview guide was administered to management of the selected microfinance institutions in Kumasi Metropolis, with emphasis on access to credit by poor in Kumasi Metropolis, challenges and prospects of microfinance business in the Kumasi Metropolis and impact of their credit facility on the poor in the Metropolis ( for detailed interview guide, see appendix 2).

**3.7 Data Type and Source**

The study used both quantitative and qualitative methods for data collection. The study quantitatively gathered data on loan amount disbursed, loan interest, personal and or business savings of clients, income of clients, capital of clients and number of employees as a way of determining the impact of loan on poverty reduction. The study also gathered data on clients' financial contribution to family consumption on durable items, health and education. The quantitative data were gathered from loan beneficiaries.

The qualitative data were also collected from both loan beneficiaries and selected microfinance institutions through questionnaire and interview guide respectively.

### 3.8 Data Analysis

The analyses of data were done descriptively and statistically using Statistical Package for Social Sciences (SPSS), version 16.0. Each research question was analyzed, presented in tables and then discussed.

The method for analyzing the data included Independence Sample t-test and chisquare test. The Independence Sample t- test was used to test for statistically significant difference between period before and after joining microfinance institution (receiving loans from MFIs) in the Kumasi Metropolis. The Chi-square was used to test for the independence on the amount of loan received by economically active poor and gender type; willingness to access loan from MFIs and economically active poor's perception on access to loan from MFIs in the Kumasi Metropolis and the characteristics of economically active poor and effects of loans on poverty reduction in the Kumasi Metropolis.

### 3.9 Profile of the MFIs Selected

The study briefly reviews the profiles of the MFIs selected for the study.

#### 3.9.1 Multi Credit Savings and Loans Limited (MCSL)

The Multi Credit Savings and Loans Limited (MCSL) was incorporated as a private limited liability company under the Companies Code 1963 (Act 179) on 17th September, 1998. MCSL was licensed by the Bank of Ghana on 5th July, 1999 and authorized to carry out the business of non-banking financial institutions under the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328). Having complied with the provisions of Sections 7 and 28 of the Companies Code, it commenced business on 9th August, 1999.

**Vision**

It is the vision of MCSL to maintain a high public image as the leading savings and Loans Company in Ghana.

**Mission Statement**

The mission of the company is to develop demand-driven financial products and services and make them easily accessible to its target market through:

1. Comprehensive understanding of the market;
2. Application of State of-the-art technology and systems;
3. The use of innovative, flexibility and enthusiasm in meeting the needs of the changing environment;

4. Presence and accessibility to products and services.

In this regard, the company is engaged in the provision of excellent and efficient customer service and a wide range of financial products and services which will ensure profitability and sustainability. It also focuses on lending to individuals, micro, small and medium-sized enterprises and thereby contributes to the socioeconomic development of its catchment area.

**Products and Services**

The Company offers products and services in the form of group loan, educational loans such as the Yenmma Daakye Educational Loan, loans for entrepreneurs businesses development like the Adepa Loan Scheme. It also offers depository service such as savings account, current account, fixed deposit, susu scheme and others services such as import financing, ticket financing.

### 3.9.2 First Allied Savings and Loans Limited

FASL was incorporated as a non-bank financial institution to operate as a savings and loans business in the country. The Institution was granted an operating license by the Bank of Ghana under the Non-Bank Financial Institutions (NBFI) Law (PNDCL 328) of 1993 on March 27, 1996 to accept deposits from the public and provide credit services to businesses and consumers.

FASL commenced official business on September 25, 1996 after it had received a certificate to commence business on June 5, 1996.

The Institution was established purposely to engage in micro-financing activities through the mobilization of savings from the retail public – mainly households and small business enterprises and the provision of credit largely to its target group (micro and small businesses). The target group oriented credits are usually linked to savings.

The Institution has been reaching out to its customers through its branches, agency and a "distance banking" concept. The Institution has been able to position itself as the leader in the savings and loans business through the provision of quality products and the delivery of efficient services to its targeted customers.

**Vision**

The vision of the company is to create an excellent institution and be a leader in the provision of quality financial services to the micro and small enterprise sector.

**Mission**

To offer convenient access to efficient innovative and responsive financial services to the micro and small scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders.

**Products and Services**

The company offer loans in the form of golden susu which is designed to assist micro/small scale entrepreneurs expand their businesses; the Allied Mpontu Group Loans which is a band group designed to meet the banking needs of customers; the super golden susu loans specially designed savings and loans product for customers who go through two loan cycles of the Golden Susu programme and can contribute a daily minimum of one hundred Ghana Cedis; the consumer loans which include products Travel, Salary, Hire Purchase, and Clearance Credits.

Aside these services, the company provides Depository Products and Services such as the Savings Deposit Account, Current Account, Fixed Deposit Account, Susu

Savings Account, and Outreach Services.

### 3.9.3 Opportunity International Savings and Loan Limited

Opportunity International Savings Limited is a non bank financial institution licensed by the Central Bank of Ghana to operate in savings and loans. OISL serves micro and small entrepreneurs with small loans, deposits, and other financial services in the Greater Accra, Ashanti, and Brong Ahafo regions of Ghana. OISL, Ghana is a partner member of Opportunity International Network an ecumenical Christian economic development organization with 42 partners operating in Africa, Asia,

Europe, Latin America and North America.

**Vision**

The vision of OISL is to transform the lives of micro and small entrepreneurs through a partnership in which we provide customer-focused financial and transformational services

**Mission**

To serve micro and small entrepreneurs with loans, deposits and other financial services that enable them to increase their income and help transform their lives while earning appropriate returns for our shareholders.

**Objectives**

To enable OISL achieve its noble mission, the following key objectives have been established:

1. To provide financial services or credit needs to small and micro business ventures;

2. To contribute positively to poverty alleviation through micro- enterprise stimulation and job creation for increased income among the poor

3. To fill the vacuum created by the formal sector Commercial Banks and financial services to small and micro enterprise;

4. To provide the requisite business management training for microEntrepreneurs to enhance their gradual growth from the micro level to the macro level.

**Product and Services**

Opportunity International Savings and Loans (OISL) extend loans or credit facilities to small and micro enterprises with the view of supporting the development of poor and deprived enterprises. It extends credit facilities to self-employed individuals especially women; a well constituted credit-seeking group, and a miniature group also called solidarity groups.

It offers its credit to micro enterprises in the manufacturing, trading, and food industry, agricultural and service sectors of the economy.

OISL reaches its clients through two main credit methodologies, that is, the Group Loan and Individual Loans. Five products have been developed under these credit methodologies, these include; group loans, individual loans, Susu loans, SME loans and school loans.

### 3.9.4 Sinapi Aba Trust Savings and Loans Limited

Sinapi Aba Trust (SAT) also referred to as "Sinapi" began as a Non-profit making Christian Organization established in 1994, with one of the implementing partners of the Opportunity International network (OI) and supported by International Christian Non-governmental Organization with headquarters in Chicago, US. The company was formed to primarily provide small and micro-credit services to viable small and micro enterprises that could not access financial assistance from the formal banking institutions due to obvious reasons such as lack of adequate collateral. The name Sinapi Aba, which is the local name of the biblical mustard seed (Matt.13: 1-32) was adopted because it depicts the magnitude and potency of the assistance that the organization provides to its clients. Leading members of Christian Life Center (CLC) brought in the idea for the formation of the Trust as part of the Church’s mission in Ghana.

However, the formation of a similar organization had already been conceived in the minds of some Christians and Business Leaders who later became Board Members. Upon several meetings and discussions, the company was finally born at a meeting held between Messes Larry Reed, Jonathan Wilson and Rev. Davis Freeman (Board

Chairman of SAT) in 1994. The background of Sinapi also relates to the fact that, Ghana possesses one of the vibrant informal sectors in Africa. In Ghana and most especially in the urban centres, almost every home has a small business attached to it. This depicts the existence of entrepreneurial spirit among the people but lack of financial assistance has crippled most of these enterprises whose contributions to the growth and development of Ghana cannot be overlooked.

**Vision**

We seek to become an institution dedicated to the building of a nation under the Almighty God where the strong help the weak and all people have the dignity of providing for themselves, their families, their church and their community"

**Mission**

Our mission is to serve as a Mustard Seed through which opportunities for enterprise development and income generation are given to the economically disadvantaged to transform their lives.

# CHAPTER FOUR

# RESULTS AND DISCUSSIONS

## 4.1 Introduction

This chapter presents and discusses the results of the data analysis for this study. The respondents were poor who are beneficiaries of micro credit from Multicredit

Savings and loans Limited, First Allied Savings and Loans Limited, Opportunity International Savings and Loans Limited and Sinapi Aba Trust Savings and Loans

Limited in the Kumasi Metropolis. Data was analyzed using the SPSS, version 16.0. The presentation and discussion of data were done in accordance with the objectives of the study. However, characteristics of the respondents were first presented and discussed.

### 4.2 Characteristics of Female Entrepreneurs

The characteristics of the respondents were discussed to form the basis of the study. The characteristics of the respondents who were loan beneficiaries of microfinance institutions considered essential to the study included gender, age, educational attainment, income level, marital status and nature of business (see Table 4.1).

**Table 4.1: Characteristics of Respondents**

| Items | Frequency (N=338 | Percentage (%) |
|---|---|---|
| **Gender** | | |
| Male | 107 | 31.7 |
| Female | 231 | 68.3 |
| **Age (Years)** | | |
| Between 18 and 24 years | 82 | 24.3 |
| Between 25 years and 34 years | 79 | 23.3 |

| | | |
|---|---|---|
| Between 35 years and 44 years | 121 | 35.8 |
| Between 45 years and 54 years | 56 | 16.6 |
| **Educational Attainment** | | |
| No formal education | 101 | 29.9 |
| Primary education | 120 | 35.5 |
| Middle/ secondary education | 96 | 28.4 |
| Tertiary education | 21 | 6.2 |
| **Marital Status** | | |
| Single | 70 | 20.7 |
| Married | 181 | 53.6 |
| Divorced | 50 | 14.8 |
| Widowed/ widower | 37 | 10.7 |
| **Nature of Business** | | |
| Petty trading | 121 | 35.8 |
| Dress making | 84 | 24.9 |
| Hair dressing | 34 | 10.1 |
| Chop bar | 71 | 21.0 |
| Others | 28 | 8.2 |

**Source: Field Data, 2014**

From Table 4.1, out of the 338 poor loan beneficiaries interviewed, 107 (31.7%) were males whiles the remaining 231 (68.3%) were females. The females formed the greater proportion of the respondents. According to 2010 Population and Housing Census, females forms the greater proportion of the population and the females are considered to be more vulnerable and poor in the Ghanaian society than male counterparts. From Table 4.1, it is shown that 282 (83.5%) of the respondents were in their youthful ages (ages between 18 years and 44 years) whiles the remaining 56 (16.6%) were between 45 years and 54 years. This implies that the respondents who were poor people were economically active to enter into any productive activity if financial assistance in the form micro loan was extended to them.

Education attainment is another important determinant factor of poverty. The study revealed that 101(29.9%) of the respondents had no formal education. The study further revealed that 120 (35.5%) of the respondents, forming the majority had basic education and 96 (28.4%) of the respondents had middle or secondary education and only 21 (6.2%) of them had tertiary education. This shows that most of the beneficiaries of microcredits are not educated beyond the basic level and this account for greater level of poverty and the low level of development in their lives.

From Table 4.1, out of 338 respondents, 181 (53.6%) were married whiles the remaining 157 (46.4%) were without partners. Out of the remaining 157 who were not having partners, 70 (20.7%) had never married, 50 (14.8%) were divorced and the remaining 37 (10.7%) were widows and widowers. This suggests that the respondents who were loan beneficiaries of microfinance institutions have much more responsibility towards themselves, their families and the nation at large. The poor who were the focus of the study, have responsibility towards taking care of their various homes, those divorced have greater challenge of taking care of themselves and their children and hence needs greater access to finance and financial assistance. Another key characteristic of the poor considered in the study was the nature of their businesses. From Table 4.1, a good number (35.8%) of the respondents were into petty trading. The petty traders were vegetables sellers, fish sellers and food stuff sellers. Other key types of business of the respondents identified were dress making, chop bar and hair dressing. The number of respondents into dress making was 84 (24.9%), chop bar operation was 71 (21.0%) and hair dressing was 34 (10.1%). The other economic activities of the respondents formed 8.2% and these included selling of building materials, agro chemical, auto parts and funeral and wedding decoration. It is clear that petty trading dominates the economic activities of the poor. The respondents indicated that petty trading business is simple and easy to form since it does not require huge capital and complex legal processes like registration with Registrar General's Department and regulatory bodies. Some of the women into petty trading were of the view that they started their business with GH₵100.00. Moreover, the female respondents who were into chop bar operations and other activities remarked that they were once into petty trading. The petty trading therefore serves as a stepping stone to most women due to its low capital and legal requirement.

### 4.3 Access to finance among the Poor

The study considered access to credit or loan facility. To examine the access to finance among the poor, the study considered access to finance before joining MFIs and after joining MFIs and the responses are shown in Table 4.2

**Table 4.2: Access to Loan Among Poor before and After Joining MFIs in Kumasi Metropolis**

| INDICATORS/ ITEMS | BEFOR JOINING MFI | ATFER JOINING MFI | PERCENTAGE CHANGE |
|---|---|---|---|
| I have access to finance/ loan | | | |
| Yes | 76 (22.5%) | 338 (100.0%) | 344.7% |
| No | 262 (77.5%) | 0 (0.0%) | - |

| | | | |
|---|---|---|---|
| Total | 338 (100.0%) | 338 (100.0%) | - |
| Sources of loan | | | |
| Group susu | 59 (77.6%) | - | - |
| Friends / relatives | 17 (22.4%) | - | - |
| MFIs | 0 (0.0%) | 338 (100.0%) | - |
| Total | 76 (100.0%) | 338 (100.0%0 | - |
| Number of times of recei ving loan | | | |
| First time | 22 (28.9%) | 71 (21.0%) | - |
| Second times | 35 (46.1%) | 146 (43.2%) | - |
| Third times | 19 (25.0%) | 121 (35.8%) | - |
| Total | 76 (100.0%) | 338 (100.0%) | - |
| Average amount of loan r eceived | | | |
| Between GH¢ 300 and GH¢ 500 | 44 (74.6%) | 77 (22.8%) | - |
| Between GH¢500 and GH¢1000 | 15 (25.4%) | 188 (55.7%) | - |
| Above GH¢ 1000 | (0.0%) | 73 (21.6%) | - |
| Total | 59 (100.0%) | 338 (100.0%) | - |

**Source: Field Data, 2014**

From Table 4.2, 76 (representing 22.5%) of the respondents had access to loan before joining MFIs in the Kumasi Metropolis. Out of this number (76), 59 (77.6%) had access to loan through group susu contributions whiles the remaining 17 (22.4%) had access to loan through friends and relatives. The respondents who had access to loan through group susu contribution indicated that they formed group with five (5) or seven (7) people who contributed susu on the daily basis. The total monthly contribution of the all the members in a group was given to one member at the end of month and subsequent month to another member until all the group members had their benefit. This is group of respondents (59 people who had access to loan through group susu contributions) indicated that amount of contributions received ranged between GH¢300 and GH¢1000. However, majority (74.6%) of them received between GH¢300 and GH¢500 as loan from group contribution whiles the remaining 15 (25.4%) indicated they received between GH¢500 and GH¢1000 as loan from group susu contribution. All the respondents indicated that they were not having any bank account until they joined MFIs in the Kumasi Metropolis.

This clearly implies that the poor in the Kumasi Metropolis were unbanked and this is supported by Richardson (2008) who indicated that the poor are usually unbanked or underbanked. Cai and Banga (2014) indicate that nearly 2.5 billion people - half of the world's adult population lack one of the most basic amenities of modern life (a bank account). These people are among the world's poorest, struggling to obtain the money they need to feed their families or start a business and create jobs. Their exclusion from the modern financial system represents a significant obstacle in the global effort to end extreme poverty and boost shared prosperity (Cai & Banga,

2014).

All the respondents as shown in Table 4.2, indicated that they had access to loan from MFIs after joining MFIs. This implies that all those (262 of the respondents) who had no access to loan, had access to loan after joining MFIs. This from Table 4.1, indicated increase in access to loan by 344.7%. From Table 4.1, MFIs increased access not only to loan but huge loan. Comparing amount of loan received before and after joining MFIs, it was revealed that 76 respondents who indicated they had access to loan before joining MFIs were not given loan amount beyond GH¢1000 but a good number of respondents (21.6%) indicated that they received loan amount beyond GH¢1000 after joining MFIs in the Kumasi Metropolis (see Table 4.2). having access to loan from MFIs, implies that all the respondents had bank account with their respective MFIs and they were regular depositors. This is consistent notion of Dalet-Harris (2009) who indicated that introduction of microfinance institutions has contributed to the growth of 885 percent in the number of clients from 1997 to 2006 – an average annual growth rate of 29 percent per year. The clients are among the "poorest," an income segment that traditional banking institutions have long considered unbankable (Daley-Harris, 2009).

The study moreover, interested in the amount of loan granted and received by men and women to determine whether disparity between the loan amounts was received poor men and women. To find out whether loan amount received from MFIs depends on gender, a chi-square test for independence was conducted. The Null Hypothesis is stated below;

**$H_0$: $\beta_1$=0 ; Where $\beta_1$= coefficient of gender**

The test as shown in table 4.3

**Table 4.3: Chi-Square Test of Gender and Amount of Loan Received from MFI**

| | Gender | | |
|---|---|---|---|
| | **Male** | **Female** | **Total** |
| Between GH¢300 and GH¢500 | 27 (25.2%) | 50 (21.6%) | 77 (22.8%) |
| Between GH¢500 and GH¢1000 | 41 (38.3%) | 147 (63.6%) | 188 (55.6%) |
| Above GH¢1000 | 39 (36.4%) | 34 (14.7%) | 73 (21.6%) |

| | | | |
|---|---|---|---|
| Total | 107 (100.0%) | 231 (100.0%) | 338 (100.0%) |
| Chi-Square = 24.829 | P-Value = 0.000 | | |

**Source: Field Data, 2014**

Table 4.3 shows that, out of 107 male respondents, 27 (25.2%) had received average loan amount between GH¢ 300 and GH¢ 500 whiles out 231 female respondents, 50 (21.6%) had received average loan amount between GH¢300 and GH¢500. Also, out of 107 male respondents, 39 (36.4%) had received average loan amount above GH¢1000 whiles out of 231 female respondents, 34 (14.7%) had received average loan amount above GH¢1000. This implies that males had more access to large loan amount than female. The Chi-Square test indicated that access to loan amount or loan amount granted by MFIs was significantly influenced by gender of the applicant (see Table 4.3).

It was realized from the study that male respondents were having more income than female respondents because male respondents were into businesses that fetched more income than female. Thus the males were more able to deposit money into their savings account than females. De Soto (2000) suggests that the safe and convenient savings facilities provided by microfinance institutions serve as collateral for larger loans. In addition, microfinance enables low-income households to save funds for future use and build credit history. This is of particular importance as many lowincome households lack the types of collateral acceptable by traditional banks that are required to access loans from this source of finance. The savings facilities serve as cash collateral for future loan for the economically active poor. Thus poor men received larger loan amount than poor women in the Kumasi Metropolis and this implies an inequality of access to loan under MFIs among poor men and poor women.

A question was put to respondents as to whether there are challenges in accessing loan from MFIs by the poor in the Kumasi Metropolis. All the respondents attested that they faced challenges in accessing loan from MFIs. Table 4.4 ranks the challenges from the least important challenge to most important challenge in terms of their importance in affecting their willingness to access loan from MFIs in the

Kumasi Metropolis.

**Table 4.4: Ranking the Challenges Facing the Poor in Accessing Loan from MFIs in terms of their importance in their willingness to access loan from MFIs**

| Challenges in accessing loan by the Poor | Score | Rank |
|---|---|---|
| Documentation | 1410 | 2nd |
| Collateral | 873 | 3rd |
| Undue delay | 741 | 4th |
| Reduction of loan amount applied | 406 | 5th |
| High interest rate | 1609 | 1st |

**Source: Field Data, 2014**

Table 4.4 shows that, high interest was ranked first (Score=1609) followed by documentation being ranked as second (Score= 1410). Collateral was ranked as third (Score =873). The implication is that high interest rate charged on loan by MFIs, documentation (such as loan application letter and filling of loan application) and collateral were the major challenges faced by the poor in accessing loan from MFIs in the Kumasi Metropolis. The respondents indicated that interest rate on loan charged by MFIs was higher as compared to traditional banks. The respondents further added that the MFIs charged interest rate ranging between 6% and 10% per month on loan and this according to them deter them from accessing loan from MFIs. In an interview with the management of the selected MFIs, it was realized that the high interest rate on loans was due to high risk associated with loans advances or high rate of loan repayment default. The management of MFIs noted that MFIs mostly target the informal sector which the traditional banks have rejected due to high risk of granting loans to them. They added that most informal sector operators do not have registered collateral in their names and therefore is therefore a high risk of advancing loan to an informal operator. Collateral demanded by MFIs according to the management interviewed included cash deposit through susu contribution, asset like car, land and house but most clients do not have asset like house, car and land.

The outcome of the study is supported by Beck, Demirguc-Kunt and Peria (2006) who indicated that documentation and bank charges are the major barriers to financial access among the poor. Beck, Demirguc-Kunt and Peria (2006) showed critical variations across countries in the degree of physical access to traditional financial institutions, documents required to maintain accounts, and costs (e.g., minimum balance requirements and fees). This implies that MFIs in the Kumasi Metropolis have not entirely removed barriers to access to finance, especially access to loan and loan amount.

The study examined the perception of the poor on access to loan from MFIs in the Kumasi Metropolis. This is necessary because perception of the poor on access to loan from MFIs in the metropolis would influence their willingness to continue to access loan from MFIs in the metropolis. The findings are shown in Table 4.5.

**Table 4.5: Chi-Square Test for independence of willingness to Access Loan from MFI and Client's Perception of access to loan**

| | Willingness to continue to access loan from MFIs | | |
|---|---|---|---|
| | **No** | **Yes** | **Total** |
| Very difficult access | 54 (98.2%) | 1 (1.8%) | 55 (100.0%) |
| Difficult access | 87 (70.2%) | 37 (29.8%) | 124 (100.0%) |
| Easy access | 13 (11.9%) | 96 (88.1%) | 109 (100.0%) |
| Very easy access | 4 (8.0%) | 46 (92.0%) | 50 (100.0%) |
| Total | 158 (46.7%) | 180 (53.3%) | 338 (100.0%) |
| Chi-Square =168.999 | P-Value =0.000 | | |

**Source: Field Data, 2014**

From Table 4.5, a good number (124; 36.7%) of the respondents perceived access to loan from MFIs as difficult whiles the remaining 55 (16.3%), 109 (32.2%) and 50

(14.8%) perceived access to loan as very difficult, easy and very easy respectively. Out of the 338 respondents interviewed, 180 (53.3%) were willing to continue accessing loan from MFIs whiles the remaining 158 (46.7%) were not willing to continue accessing loan from MFIs. Out of 55 respondents who perceived loan access as very difficult, 54 (98.2%) of them were not willing to continue accessing loan from MFIs, whiles the remaining 1 (1.8%) were willing to continue accessing loan from MFIs. Also, 50 respondents who perceived access to loan from MFIs in the Kumasi Metropolis as very easy, 46 (92.0%) of them were willing to continue to accessing loan from the MFIs whiles the remaining 4 (8.0%) were not willing to continue to accessing loan from MFIs. The implication is that poor who perceived access to loan from MFIs as difficult were not willing to continue to access loan from MFIs in the Kumasi Metropolis whiles those who perceived loan access as flexible or easy were willing to continue to access loan from the MFIs. The willingness of the poor in the metropolis to access loan from MFIs depended on their perception to access to loan and this was statistically significant at 1% level (Chi-Square= 168.999: P-value = 0.000). This implies that the poor in the Kumasi Metropolis are gradually losing interest in access loan and other financial services from MFIs due to challenges they face in accessing loan and other financial services from MFIs.

## 4.4 Challenges and Prospects of Microfinance Institutions

The section of the study explores some of the prospects of microfinance business in the Kumasi Metropolis and the challenges the institutions face in the metropolis and dealing with the economically active poor. This section sought the views and opinion of the management of Multi Credit Savings and Loans Limited, Opportunity International Savings and loans Limited, Sinapi Aba Trust Savings and loans Limited and First Allied Savings and loans Limited.

The concerns of these institutions were grouped under two sections; macro level (which is above the control of the operators and should be managed by government) and Micro level (which can be handled or dealt with by the operators). The institutions consider the macro problems to be a national problem and it is the government that will be in a better position to solve them. There are however some problems that should be solved jointly by both parties; the government and the operators of microfinance institutions. The challenges are presented in Table 4. 6.

**Table 4.6: Challenges Facing Microfinance Institutions in Kumasi Metropolis**

| Challenges at Micro Level | Challenges at Macro Level |
|---|---|
| 1. High rate default of loan repayment by clients | 1. Irregular power supply |
| 2. Lack of adequate and reliable data on clients | 2. Regulatory constraint |
| 3. Fear and panic among clients due to collapse of other microfinance companies | 3. Multiple taxes and levies |
| 4. High operational cost | 4. Poor coordination and collaboration among players in the industry |

| | |
|---|---|
| | 5. limited support for human an institutional capacity building |

**Source: Field Data, 2014**

The management of the selected microfinance companies indicated that there are many prospect for the microfinance industry and some are highlighted as follows:

1. Large untapped market for microfinance banks: The management of the selected companies indicated that there exists a large untapped market for microfinance banks. The people of Kumasi Metropolis are mostly engaged in the informal sector and this serves as good market for the microfinance business. This large untapped market in the microfinance subsector is further enhanced by the fact most of the economically active poor have no access to banking services. To say that this leaves a lot of room for existing microfinance banks to expand their scope of operations and for new ones to enter will be stating the obvious.

2. Government's renewed interest and improved regulatory environment: The management of the selected microfinance companies indicated that Bank of Ghana from time to time organizes training programmes for regulators, promoters and practitioners and even subsidizes the training of practitioners in the sector to reduce the burden on the banks.

### 4.5 Microfinance and Poverty Reduction

To examine whether the participation in microfinance programme resulted in reduction of poverty, monthly income and savings, number of persons employed by their enterprises, household assets, improved access to health care and education and nutritional intake.

### 4.5.1 Microfinance and Income of the Poor

Microfinance programmmes are mainly expected to reduce poverty by increasing incomes of the poor household. The income levels of the participants before and after joining MFIs are shown in Table 4.7.

**Table 4.7: Impact of Microfinance on Income of Participants**

| Indicators | Before loan from MFIs | | After loan from MFI | |
|---|---|---|---|---|
| **Monthly Income** | **Frequency** | **Percentage** | **Frequency** | **Percentage** |
| Below Gh¢ 300 | 197 | 58.3 | 0 | 0.0 |
| Between GH¢300 and Gh¢500 | 141 | 41.7 | 191 | 56.5 |
| Between Gh¢500 and Gh¢700 | 0 | 0.0 | 75 | 22.2 |
| Between Gh¢700 and Gh¢ 1000 | 0 | 0.0 | 72 | 21.3 |
| Gh¢ 1000 and above | 0 | 0.0 | 0 | 0.0 |
| Total | 338 | 100.0 | 338 | 100.0 |

**Source: Field Data, 2014**

From Table 4.7, majority (58.3%) of the poor were earning below GH¢300 per month before joining MFIs whiles the remaining 141 (41.7%) were earning between GH¢300 and GH¢500 per month. However, after joining MFIs and receiving loan from MFIs, their income levels improved. Majority (56.5%) earned monthly income between GH¢300 and GH¢500 and the remaining 75 (22.2%) and 72 (21.3%) earned monthly income between GH¢500 and GH¢700 and between GH¢700 and GH¢1000 respectively after joining MFIs. None of them earned monthly income below GH¢300 after joining MFIs in the Kumasi Metropolis.

The study further tests as to whether or not there is significant difference between the income of the poor before and after joining MFIs in the Kumasi Metropolis by using Independent sample T test and the result is shown in Table 4.8. The hypotheses tested were:

1. **Null Hypothesis ($H_0$):** There is no significant difference between the monthly incomes of the poor before and after joining MFIs in the Kumasi Metropolis
2. **Alternative Hypothesis ($H_1$):** there is significant difference between the monthly income of the poor before and after joining MFIs in the Kumasi Metropolis.

In the study, 95% confidence level (0.05 level of significance) was established to accept or reject the null hypothesis.

**Table 4.8: Independent Sample t-Test Result for Monthly Income of the Poor before and After Joining MFIs**

| Mean income after joining MFI | Mean income before joining MFI | Standard deviation of monthly income after MFI | Standard deviation of monthly income before MFI | Mean difference | Sig. (2-tailed) |
|---|---|---|---|---|---|
| 540.23 | 341.72 | 180.11 | 49.38 | 198.52 | 0.00 |

**Source: Field Data, 2014**

From Table 4.8, the null hypothesis which says there is no significance difference between the monthly income of the poor before and after joining MFIs is rejected in favour of the alternative hypothesis. Therefore, it is concluded from the study that there was significant difference between the monthly incomes of the poor, before and after joining MFIs and MFIs in the Kumasi Metropolis have significantly improved the income levels of the poor.

This study is consistent with Littlefield, Murduch and Hashemi (2003) notion that various studies on impact of micro credit on poverty reduction have found that micro credit increase incomes of participants. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all shows very positive impacts of microfinance on income levels of participants. This implies MFIs have positively impacted on the incomes of the poor which would help reduce poverty in the metropolis.

### 4.5.2 Microfinance and Average Monthly Savings

Savings are critical indicators of improvement in the lives of beneficiaries of microfinance programmes. Households with increased savings have better economic and investment capacities in addition to increased ability to withstand risk. The respondents were asked to indicate their monthly savings before and after joining

MFIs and the responses are summarized in Table 4.9.

**Table 4.9: Impact of Microfinance on Monthly Savings of Participants**

| Indicators | Before loan from MFIs | | After loan from MFI | |
|---|---|---|---|---|
| **Monthly Income** | **Frequency** | **Percentage** | **Frequency** | **Percentage** |
| Below GH¢ 50 | 338 | 100.0 | 112 | 33.1 |
| Between GH¢50 and Gh¢100 | 0 | 0.0 | 148 | 43.8 |
| GH¢100 and above | 0 | 0.0 | 78 | 23.1 |
| Total | 338 | 100.0 | 338 | 100.0 |

**Source: Field Data, 2014**

From Table 4.9, all the respondents saved below GH¢50 per month before joining

MFIs. However, after joining MFIs and received loan from MFIs, their monthly savings improved. Majority (43.8%) saved between GH¢50 and GH¢100 every month and the remaining 112 (33.1%) and 78 (23.1%) saved below GH¢50 per month and at least GH¢100 per month.

The study further test whether or not there is significant difference between the average monthly savings of the poor before and after joining MFIs in the Kumasi

Metropolis by using Independent sample T test and the result is shown in Table 4.10. The hypotheses tested were:

1. **Null Hypothesis ($H_0$):** There is no significant difference between the monthly savings of the poor before and after joining MFIs in the Kumasi Metropolis

2. **Alternative Hypothesis ($H_1$):** There is significant difference between the monthly savings of the poor before and after joining MFIs in the Kumasi Metropolis.



**Table 4.10: Independent Sample t-Test Result for Monthly Savings of the Poor before and After Joining MFIs**

| Mean monthly savings after joining MFI | Mean monthly savings before joining MFI | Standard deviation of monthly savings after MFI | Standard deviation of monthly savings before MFI | Mean difference | Sig. (2-tailed) |
|---|---|---|---|---|---|
| 70.60 | 24.14 | 33.59 | 8.18 | 46.46 | 0.000 |

**Source: Field Data, 2014**

From Table 4.10, the null hypothesis which says there is no significance difference between the monthly savings of the poor before and after joining MFIs is rejected in favour of the alternative hypothesis. Therefore, it is concluded from the study that there was significant difference between the monthly savings of the poor, before and after joining MFIs and MFIs in the Kumasi Metropolis have significantly improved the savings of the poor. De Soto (2000) suggests that the safe and convenient savings facilities provided by microfinance institutions enable low-income households to transform their non-financial assets into more liquid, high-yield forms that may eventually serve as collateral for larger loans. In addition, microfinance enables low-income households to save funds for future use and build credit history. The MFIs enables the poor also to save their monies through susu contributions which the traditional banks did not recognized. This creates liable stable income for the poor to enable withstand shocks such as illness and any unforeseen unfortunate event.

### 4.5.3 Microfinance and Access to Health care and Education

Access to health care and education are other key indicators of poverty and poor have less access to health care and education than the rich. The study asked the poor respondents to indicate their families' access to health care and education and the responses are shown in Table 4.11.

**Table 4.11: Independent Sample t-Test Result for access to education and health care before and after Joining MFIs**

| Indicators | Before loan from MFIs | | After loan from MFI | | Sig. (2 –tailed) |
|---|---|---|---|---|---|
| **health care** | No | Yes | No | Yes | |
| Able to pay for all medical bills | 269 (79.6%) | 69 (20.4%) | 151 (44.7%) | 237 (55.3%) | 0.000 |
| Able pay for insurance premium for all children | 54 (16.0%) | 284 (84.0%) | 42 (12.4%) | 296 (87.6%) | 0.154 |

| Education | | | | | |
|---|---|---|---|---|---|
| Able to provide educational needs of children | 135 (39.9%) | 203 (60.1%) | 43 (12.7%) | 296 (87.3%) | 0.00 |

**Source: Field Data, 2014**

From Table 4.11, majority of the poor indicated that they were able to pay for health insurance premium for all their children before and after joining MFIs in the Kumai Metropolis. The significance level (0.154) of the Independent Sample T Test indicated that there was no significant difference for ability to pay for insurance premium before and after joining MFIs in the metropolis. However, with regards to poor's ability to pay for medical bills, the study found significant difference between before and after joining MFIs in the Kumasi Metropolis. This implies that MFIs improves participants' ability to pay for medical bills. Access to health care is measured in terms of affordability and availability of health care and improvement in the participants' ability to pay for medical bills suggests an improvement in health care.

Moreover, with regards to impact of microfinance on education of children of participants, out of 338 respondents, 39.9% of them indicated that they were not able to provide educational needs of their children whiles the remaining 60.1% indicated otherwise before joining MFIs. However, after joining MFIs in the Kumasi Metropolis, participants were more able to provide educational needs of their children as 87.3% of them attested that they were able to provide for educational needs of their children. The remaining 12.7% of the respondents were still having difficulty of providing for educational needs of their children even after joining MFIs in the metropolis. This implies that poor people's participation in MFI programmes enabled them to provide improved education for their children and this was significant. The poor were able to pay for children's school fees, buy school uniform, notes books, text books, pens and pencils and other relevant learning aids for their children.

### 4.5.4 Microfinance and Consumption of Durable Household Items

Income is either consumed or saved and expenditure on durable items is a good indication of poverty. The respondents were thus asked indicate whether or not they had some selected consumer durables items and the responses are shown in Table

4.12.

**Table 4.12: Independent Sample t-Test Result for Consumption of Durable Household items before and after Joining MFIs**

| **Indicators** | **Before loan from MFIs** | | **After loan from MFI** | | **Sig. (2 – tailed)** |
|---|---|---|---|---|---|
| | Frequency | Percentage | Frequency | Percentage | |
| TV/ video player | 247 | 73.1 | 338 | 100.0 | 0.000 |
| Fridge | 118 | 34.9 | 244 | 72.2 | 0.02 |
| Stove | 0 | 0.0 | 49 | 14.5 | 0.00 |

**Source: Field Data, 2014**

From Table 4.12, 73.1% and 34.9% of the respondents had TV/ Video player and fridge before joining MFI. None of them had stove. However, after joining MFI in the Kumasi Metropolis, majority of them were able to afford such consumer durables. From Table 4.11, all of the respondents indicated that they were able buy TV/ video player. Also, 72.2% and 14.5% of the respondents were able to buy fridge and stove respectively.

Improvement in all the items were significant, hence MFIs in the Kumasi Metropolis have improved the poor ability to buy essential consumer durable items such as fridge, stove and TV/ video player.

### 4.5.5 Impact of Microfinance on poverty Reduction and Characteristics of the Poor

This subsection considers how characteristics of the poor affect the contribution of MFI interventions on poverty reduction. The characteristics considered were gender of the poor and educational attainment of the poor and the responses are summarized in Table 4.13.

**Table 4.13: Characteristics of Poor and Effects of Loan from MFIs on poverty Reduction**

| | **Experienced poverty reduction in my family** | | | **Chi-Square Value** | **P-Value** |
|---|---|---|---|---|---|
| | **No** | **Yes** | **Total** | | |
| Gender | | | | 45.255 | 0.000 |
| Male | 14 (13.1%) | 93 (86.9%) | 107 (100.0%) | | |
| Female | 119 (51.4%) | 112 (48.5%) | 231 (100.0%) | | |
| Total | 133 (39.3%) | 205 (60.7%) | 338 (100.0%) | | |
| **Educational attainment** | | | | 164.382 | 0.000 |
| No formal education | 91 (90.1%) | 10 (9.9%) | 101 (100.0%) | | |
| Primary education | 32 (26.7%0 | 88 (73.3%) | 120 (100.0%) | | |
| Middle/ secondary education | 10 (10.4%) | 86 (89.6%) | 96 (100.0%) | | |
| Tertiary education | 0 (0.0%) | 21 (100.0%) | 21 (100.0%) | | |

| | | | | | |
|---|---|---|---|---|---|
| Total | 133 (39.3%) | 205 (60.7%) | 338 (100.0%) | | |

**Source: Field Data, 2014**

From the Table 4.13, majority (60.7%) attested that microfinance services, especially loan received had moved them and their families out of poverty whiles the remaining 133 (39.3%) indicated otherwise. This implies that microfinance institutions through loans have moved majority of economically active poor out of poverty in the Kumasi

Metropolis. This is consistent with notion of Littlefield et al. (2003) and World Bank (2010) that microfinance is a key tool to achieve the Millennium Development Goals (MDGs) by reducing poverty through giving of micro loans to economically active poor. The finding of this current study is also supported by Kondo (2007) and Kondo et al (2008) studies on the impact of micro credit on poverty reduction in rural Philippines which found that microfinance has significantly impacted on welfare outcomes and thereby on poverty alleviation.

From Table 4.13, out of 107 male respondents who were poor loan beneficiaries, majority (86.9%) indicated that loan received from microfinance institutions had moved them and their families out of poverty whiles the remaining 14 (13.1%) indicated otherwise. Out of 231 females interviewed, majority (51.5%) indicated that loan received from microfinance institution had not moved them and their families out of poverty whiles 112 (48.5%) attested that loan from microfinance institutions had moved them and their families out of poverty.

This implies that loan from microfinance institutions in the Kumasi Metropolis have had greater impact on poor male beneficiaries than poor female beneficiaries of loan and this was statistically significant. This is because the poor men were into lucrative businesses and had better incomes than the poor women. Hulme and Mosley (1996) state that there is clear evidence that the impact of a loan on a borrower's income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the middle and upper poor.

In terms of education, loans from microfinance institutions in the Kumasi Metropolis had greater impact on poverty reduction among beneficiaries with tertiary education and then middle or secondary education. Therefore the higher the educational level of the beneficiary of loan, the greater the impact of the loan on poverty reduction in their lives and their family and this is significant (Chi-sqaure= 164=382; Pvalue=0.000). This is because educated people have required knowledge and skills to management finances and businesses and they more able to put loan into good business venture for higher returns. Efficient and good use of loan leads to improved business and profit, improved incomes and savings and improved smoothening of consumption and higher poverty reduction.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a summary of the study, gives overall conclusions of the study and recommends way by which access to finance among the poor can be improved in Kumasi Metropolis and how poverty can be reduced in the metropolis.

## 5.2 Summary of Major Findings

The aim of the study was to assess the impact of microfinance on poverty reduction in Kumasi Metropolis in the Ashanti Region. The study employed descriptive research design to describe the assess to finance among the poor and the nature and extent of poverty reduction among the poor as result of microfinance. The challenges facing microfinance institutions were also assessed. Independent sample T test was used to test for the significance of impact of microfinance on income level, savings, access to health and education and consumption of durable household items. A total of 338 poor beneficiaries of loan from four selected microfinance institutions were sampled from Kumasi Metropolis.

The findings of the study, in relation to the key research questions, are summarized as follows:

1. Microfinance Institutions have been providing microfinance service to economically active poor who hitherto were not having access to finance, especially loan facility from the traditional banks. However, it was realized from the study that poor men had more access to larger loan amount than poor women in business activities.

2. It was realized from the study that microfinance had not entirely removed all barriers to access to financial services, especially loan from the institutions. It was realized that high interest rate on loan, documentation and collateral served as challenges and barrier to access loan from microfinance institutions.

3. It was realized from the study that majority (53.0%) of the poor had a general perception that access to finance especially loan from microfinance in Kumasi Metropolis was difficult and this significantly affected their willingness to access loan from microfinance institutions.

4. From the study, it was realized that improvement in the incomes of the poor as a result of their participation in microfinance improved consumption of durable

items such as fridge, TV/ video player and stove/ cookers and these were also statistically significant.

5. From the study, it was realized that participation in microfinance in the Kumasi Metropolis has improved health care and education among poor household as more poor could afford medical bills and educational needs of their children after receiving loan from microfinance institutions.

6. It was realized from the study that loan given to economically active poor positively impacted more on male poor than female poor and more on educated poor than non-educated poor.

7. It was realized from the study that microfinance institutions had number of challenges, both at the national level and within the individual companies. The major challenges at the micro levels included high rate of loan repayment default and poor data on the clients.

### 5.3 Conclusions

Poverty has been high in Ghana, though Ghana has been adjudged one of the richest countries in Sub Sahara Africa (Yeboah, 2008). Many approaches and strategies have been used to fight poverty in Ghana and microfinance schemes have been identified by Governments and international development agencies as a new strategy for poverty reduction. It is no doubt that the impact of microfinance is more specific than general dimensions (Brau & Woller, 2004; Hulme, 2000; Makina & Malobola, 2004). Questions regarding the impact of microfinance on the welfare and income of the poor have therefore been raised many times (Copestake, 2002). This study assessed the impact of microfinance on poverty reduction in the Kumasi Metropolis to ascertain the nature and extent of poverty reduction among economically active poor loan beneficiaries of the microfinance institutions in the Kumasi Metropolis.

The study confirmed the findings of Kondo (2007), Kondo et al (2008) and Littlefield, Murduch and Hashemi (2003) that microfinance increase income and assets, and decreases vulnerability of the poor, thereby reducing poverty among the poor.

### 5.4 Recommendations

Based on the findings, the following recommendations were made;

1. Though microfinance institutions in the Kumasi Metropolis have increased access to finance, especially loan among the economically active poor, there are still some barriers such complex documentation, high interest rate and collateralization. In order to improve the access to finance:

    a) The microfinance institutions should be encouraged to simplify their loan application form and other forms relevant to access to finance. This is because most of the economically active poor who are the main target of the microfinance institutions are uneducated to understand and fill voluminous forms. The simplification of loan application procedure and forms would encourage more economically active poor to access finance from the microfinance institutions.

    b) The microfinance institutions should be encouraged to design especial loan products for the economically active poor. The loan product should take into consideration the nature of the business and the assets base of the economically active poor. This will enable the institutions to know the kind of collateral that can be provided by the economically active poor and the nature and loan size that can be advanced to the economically active poor.

2. Microfinance institutions through loan advanced to the economically active poor have reduced poverty in the Kumasi Metropolis. It is therefore recommended that the microfinance institutions should be assisted and encouraged by government and other stakeholders in the industry to extend more loan facility to economically active poor in the Kumasi Metropolis.

3. From the study, loan positively impact more in the families of educated economically active poor than uneducated economically active poor. It is therefore recommended that microfinance institutions should be encouraged and assisted to organize seminars and training to economically active poor loan beneficiaries to equip them manage the loan received and their businesses efficiently and effectively for higher business returns and smooth repayment of loans. Loan from microfinance institutions to economically active poor should therefore go with business training of the recipients to ensure greater reduction in poverty in the lives and families of the recipients.

4. It is recommended that the microfinance institutions in the Kumasi Metropolis should be assist by the government and other stakeholders to overcome challenges the industry is facing to effectively play its roles to economic development of Ghana. Addressing the challenges the industry is facing will help sustain the industry for the benefit of the country as whole.

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# APPENDIX

## Appendix I: Questionnaire for Loan Beneficiaries

Sir/ Madam,

This study is being conducted to assess: "**the impact of microfinance on poverty reduction in Kumasi Metropolis".** Your opinions are highly essential as they will help to determine access to finance by the poor and the nature and the extent of impact of microfinance on poverty reduction in the Kumasi Metropolis. Whatever you say will be treated confidential, so feel at ease to express your candid opinion**.** Be assured that your responses will not in any way be linked to your identity. You are kindly requested to answer the questions below by indicating a tick or writing the appropriate answer when needed.

**THANK YOU**

**(a) Personal Data**

1. Gender : 1= Male [ ] 2= Female [ ]
2. Age: 1= 18-24 [ ] 2= 25-34 [ ] 3= 35-44 [ ] 4= 45-54 [ ] 5= 55+[ ]
3. Educational Level: 1= No formal education [ ] 2= Primary [ ]
   3= Middle/Secondary [ ] 4= Tertiary [ ]
4. Income level: 1= below ¢150 [ ] 2= between ¢150 and ¢300 [ ] 3= between ¢300 and ¢450 [ ] 4= ¢450 and above [ ]
5. Marital status: 1= Single [ ] 2= Married [ ] 3= Divorced [ ] 4= Widowed/ Widower [ ]
6. Business Enterprise you are engaged in: 1= Petty trading [ ] 2= Dress making [ ] 3= Hair dressing [ ] 4= Restaurant (chop bar) [ ] 5= others.

Please specify ..................................................................................................

7. Is it the only source of your income? 1=Yes [ ] 2= No [ ]

8. If Yes give reason and if No provide the other sources

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(b) **Access to Finance among the Poor**

9. Did you have any access to finance/ credit before joining microfinance programme? 1=Yes [ ] 2= No [ ]

10. If your answer to question 9 is yes, give the number of times loans were given before joining microfinance, sources of the loan, amount of the loan and the purpose of the loan

| **Number of times** | **Source of the loan** | **Amount of the loan** | **Purpose of the loan** |
|---|---|---|---|
| First times | | | |
| Second times | | | |
| Third times | | | |

11. Indicate the number of times, sources of the loan, amount of the loan and the purpose of the loan from microfinance institution

| Number of times | Source of the loan | Amount of the loan | Purpose of the loan |
|---|---|---|---|
| First times | | | |
| Second times | | | |
| Third times | | | |

12. What guarantee did you give to the microfinance institution before given you the loan?

    1= Cash deposit through susu savings [ ] 2= Asset like car, home [ ] 3= Group responsibility [ ] 4= Any other,

    please specify ..........................................................................................................

13. Do you see demand for collateral as challenge for accessing loan?

    1= Yes [ ] 2= No[ ]

14. Did you face any challenges in accessing loan from your microfinance institution?

    1= Yes [ ] 2= No [ ]

15. If you did face any challenge, rank the following challenges from 1 (being the less important) to 5 (being the most important ) challenge.

| Challenges | Ranking |
|---|---|
| Documentation | |
| Collateral | |
| Undue delay | |
| Reduction of amount applied | |
| High loan interest | |

16. How do you consider the process of obtaining loan from MFI? 1= very difficult [ ] 2= difficult [ ] 3= Easy [ ] 4= very easy [ ]

17. Does this affect your willingness to access loan from MFIs? 1= Yes [ ] 2= No [ ]

18. Do you usually get the amount of loan you require from the MFIs? 1 = Yes [ ] 2= No [ ]

19. If no, why? (Give reasons) ..........................................................................................

.........................................................................................................................

.........................................................................................................................

20. How do you pay back loans to the MFI? 1= Daily[ ] 2= Weekly [ ] 3= Monthly [ ] 4= Quarterly [ ]

5= Others, specify [ ]..........................................................................................

21. Have you ever defaulted in the repayment of the loan? 1= Yes [ ] 2= No [ ]

22. Are there any sanctions on defaulting to pay back loans? 1 = Yes[ ] 2 = No [ ]

23. If yes, indicate the nature of the sanctions...........................................................

.........................................................................................................................

.........................................................................................................................

24. Do the sanctions for default of loan repayment deter you to access loan from MFIs?

1= Yes [ ] 2= No [ ]

25. How do you see the interest rate on loans from MFIs? 1= low [ ] 2= moderate [ ] 3= High [ ]

26. Does the interest rate on loans from MFIs deter you to access loan from MFIs?

1= Yes [ ] 2= No [ ]

27. How do you consider the access to loan from the MFI?
    1= Excellent [ ]   2= Better [ ]   3= Good [ ]   4= Bad [ ]   5= Poor [ ]

28. How do you think access to loan from MFIs can be improved?

    ..........................................................................................................................

    ..........................................................................................................................

    ..........................................................................................................................

(c) **Impact assessment**

29. Have the loan you have received helped you improve your business?

    1= Yes [ ]   2= No [ ]

30. Have the loan you have received helped to move you and your family out of poverty?

    1= Yes [ ]   2= No [ ]

31. Indicate your average monthly sale before and after the loan from MFI

| Average monthly sale | Before loan from MFI | After loan from MFI |
|---|---|---|
| Below GH¢300 | | |
| GH¢¢300-GH¢500 | | |
| GH¢500-GH¢700 | | |
| GH¢700-GH¢1000 | | |
| GH¢1000 and above | | |

32. Indicate the number of persons employed before and after loan from MFI

| Number of persons employed | Before loan from MFI | After loan from MFI |
|---|---|---|
| 1 | | |
| 2 | | |
| 3-5 | | |

33. Indicate your average monthly savings before and after loan from MFI

| Average monthly savings | Before loan from MFI | After loan from MFI |
|---|---|---|
| Below GH¢50 | | |
| Between GH¢50-GH¢100 | | |
| GH¢100 and above | | |

34. Please, indicate whether you had any of these before MFI and whether you have any of them after MFI

| **Items** | **Before MFI loan** | **After MFI loan** | **Indicate your financial contribution towards purchase of these items** |
|---|---|---|---|
| Radio/ tape | | | |
| TV/ video player | | | |
| Stoffen chairs | | | |
| Bed/ mattresses | | | |
| Fridge | | | |
| Stove | | | |
| Others (specify) | | | |

35. Please, indicate your average financial contribution towards the following

| Items | Before MFI loan | After MFI loan |
|---|---|---|
| Payment of medical bills | | |
| Health insurance cover | | |

| | | |
|---|---|---|
| Number of people insured | | |
| Wards' educational expenses | | |
| Number of children at school age | | |
| Number of children in school | | |
| Number of children at:<br>1. Primary level<br>2. Secondary level<br>3. Tertiary level | | |

## Appendix II

### Interview Guide for Management of MFI

Sir/ Madam,

This study is being conducted to assess: "**the impact of microfinance on poverty reduction in Kumasi Metropolis".** Your opinions are highly essential as they will help to determine access to finance by the poor and the nature and the extent of impact of microfinance on poverty reduction in the Kumasi Metropolis. Whatever you say will be treated confidential, so feel at ease to express your candid opinion**.** Be assured that your responses will not in any way be linked to your identity. You are kindly requested to answer the questions below by indicating a tick or writing the appropriate answer when needed.

**THANK YOU**

1. **Tick the MFI you are with.**

| | |
|---|---|
| First Allied | |
| Multi Credit | |
| Sinapi Aba Trust | |
| Opportunity internal | |

2. Your Position: 1= Branch manager [ ] 2 = Area manager [ ] 3 = Relationship manager [ ] 4= Credit supervisor [ ]
3. Number of loan Clients: ..........................................................................
4. What conditions must a client satisfy to qualify for a loan? List them

   ..........................................................................................................................

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   ..........................................................................................................................
   ......................................................................................................................

5. How would you assess your loan recovery rate?

   ..........................................................................................................................

   ..........................................................................................................................

   ........................................................................................................................

6. How is the loan repayment done? 1= daily [ ] 2= Weekly [ ] 3=

Monthly [ ]      4 = yearly [  ]      5 = other, specify [  ] ..............................

**7.** What three problems/challenges do you encounter in giving out loans to the economically active poor?

i. ..........................................................................................................

ii. ..........................................................................................................

iii. ..........................................................................................................

**8.** How can challenges identified by you be solved?

i. ...........................................................................................................

ii. ...........................................................................................................

iii. ...........................................................................................................

**9.** Identify any three prospects of MFI business in Kumasi Metropolis.

i. ............................................................................................................ ii.

...................................................................................................................

iii. ...........................................................................................................