

Assessing the Contribution of Microfinance Institutions to Poverty Reduction in Ghana: A Case Study of the Christian Rural Aid Network (CRAN) Hohoe, Ghana

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ABSTRACT: *Traditionally, when a person wants to start a business venture, he solicits a loan from a bank. But what should a budding entrepreneur do if he or she is poor to obtain funding to set up a profitable business? The answer lies in financial services called Microfinance. Since, microfinance has proven to be an effective tool for poverty reduction; this study seeks to ascertain the contribution of Christian Rural Aid Network (CRAN) on poverty reduction of people in the rural areas through its microfinance programmes in the Hohoe municipality. The study employed economic and social variables as benchmarks for measuring the impact. The researchers used both primary and secondary data. The primary data was gotten from CRAN's clients and from the management. The information was obtained by use of 60 self-administered questionnaires by the beneficiaries and interviews with management. The Study found a positive relationship between microfinance and the benchmark variables and showed that access and efficient contribution of microfinance can enable the poor to smooth their consumption, manage their risks better, gradually build their assets, develop their micro enterprises, enhance income earning capacity, and enjoy an improved quality of life. The study come up with several conclusions, notable among them is that, there are several indicators of improvement in the conditions of life of people; CRAN has a positive contribution on*

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poverty reduction of rural men and woman to cite a few. The study yielded the following recommendations; maintaining the interest rates, lengthen the repayment period, education and training of Microfinance beneficiaries.

KEYWORDS: *Poverty, Institutions, Microfinance, Benchmark*

I. INTRODUCTION

This article focuses on the assessment of the contribution of Microfinance institutions to poverty reduction in Ghana through reduction of poverty in the rural area. The specific area of development that will be discussed is Ghana, which is a relatively small country located on the West African coastline that has a multitude of diversity of languages, ethnicities and enduring democratic government. Micro-finance concept has been in operation for centuries in different parts of the world, for example, "Notable" in Indonesia, "cheetu" in Sri Lanka, "tontines" in Cameroon, "susu" in Ghana and "pasanaku" in Bolivia. It dates back in the 19th century when money lenders were informally carrying out the role of now formal financial

institutions. Microfinance has developed as a socio-economic development tool intended to benefit many different customers who are excluded from the formal financial system i.e. low-income earners. A main aim of many micro finance institutions (MFIs) is to provide sustainable micro finance facilities to the poor and low income, self-employed or household-based businesses to facilitate income generation and reduce poverty [5].

Over the past two decades, various development approaches have been devised by policymakers, international development agencies, nongovernmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor.

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. It includes loans, savings, insurance, transfer services and other financial products and services. Studies have shown that micro-finance plays three broad roles in development: It helps very poor households meet basic needs and protects against risks; it is associated with improvements in household economic welfare and it helps to empower women by supporting women's economic participation and so promotes gender equity [6]

Poverty has always been a part of the world; even in the developed world where it is assumed that everyone is well-to-do, some of the people find

themselves living under the threshold of poverty. Poverty has become an albatross hanging on the necks of most Countries and individual households on the globe particularly in developing and under developed countries.

Majority of the world's poor are rural and depend largely on agricultural and other natural resource-based activities. Statistics indicate that 1.2 billion people worldwide are in dollar poverty, consuming less than a dollar a day. Of the dollar poor, 75 percent of them work and live .

In the rural areas [2] Poverty reduction programmes must, therefore, be focused on the rural poor if they are to succeed. Microfinance promotion is paramount in the poverty reduction endeavors. Ghana is still among the poor countries in the world with an annual per capita income of US \$400 with a population of 24 million.

The poor have not had the opportunity to use credit and savings to booster their capacity for bearing risk or to become entrepreneurs [10]. The majority of the populations who live off agriculture are also poor whose main source of income is agriculture. The main enterprise of the poor has been the family farm, which has not developed alongside the other sectors of the economy. Based on Hohoe municipal assembly report Ghana district government 2006 our research has been done to show the real impact of CRAN intervention to the reduction of Poverty in the Municipal. We want to find out if there is improvement or not in welfare of people in the community. This therefore sets the basis for the study.

A. POVERTY AND MICRO FINANCING

Poverty is a condition or state of livelihood that can best be defined by the accounts of those who experience it. It refers to circumstances of deficiency or lack of something physical and/or intangible and amounting to a status of inferiority or low self-esteem. It manifests itself in various forms, which collectively or individually impact negatively on the person. It breeds apathy and lethargy amongst them and prevents them from realizing their potential. The significant manifestations of poverty include material deprivation, lack of assets, isolation, vulnerability, lack of decision-making power, constrained freedom of choice and opportunity in matters of production, consumption, employment and socio-political representation [9]

Microfinance, according to is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood generally include savings and credit but can also include other financial services such as insurance and payment services [12]. Adjei define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks” [1]. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Microfinance is often referred to as financial services for poor and low-income clients offered by different types of service providers. Even though, microfinance disburse small amounts, if properly harnessed can have knock-on effect and contribute significantly to the well-being of the

poor. Microfinance can increase investment among the poor and hence, empower them economically.

While traditional commercial banks provided credit based on collaterals, microfinance institutions (MFIs) provide credit to the poor who do not provide collaterals. Adjei observed that for most micro and small entrepreneurs in Ghana the lack of access to financial services is a critical constraint to the expansion of viable micro enterprises [1].

According to Aryeetey only six percent of the populations have access to formal financial services with majority of the population denied access [3]. Interestingly, about 91% of the economically active of the population in Ghana is employed in the informal sector; ironically it is this active and major part of the population that is denied credit. Given the devastating effect of poverty on the people of Ghana, successive governments since the 1980s have introduced medium-term national development policy framework to direct the implementation of development plans in sectors and districts aimed at reducing poverty and improving the social wellbeing of the people.

There was the Economic Recovery Program (ERP) introduced in 1983 and backed by specific programs such as the Program of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) and the Ghana Vision 2020. These programs were, however, unsuccessful [9]. Further on, the Ghana Poverty Reduction Strategy (GPRS I) [10] was formulated to enable Ghana to benefit from a significant measure of debt relief under the Highly Indebted Poor Country (HIPC) and to position the country in an improved macroeconomic environment to address critical issues of poverty on an emergency basis.

Microfinance is, therefore, seen as a financially sustainable instrument capable of providing capital for and ensuring growth and sustainability in the private informal sector ignored by traditional commercial banks. Microfinance in Ghana is, however, plagued with a lot of challenges; poor recovery rate, lack of capital for sustainability, inadequate credit delivery and management, inability to reach the vulnerable and the marginalized, regulation and supervision problems as well as high turnover of MFI staff. As to whether microfinance has been able to reduce poverty among the beneficiaries of its products is the cap of this study. Social and economic variables that will be employed include individual income, household growth, and access to education, housing as well as participation in social activities [8].

B. POVERTY SITUATION IN GHANA

Ghana experienced high levels of poverty between 1987 and 1992 [11]. The over reliance on the export of a few primary products such as cocoa, gold, timber and others have made the country vulnerable to price shocks and resulted in low levels of revenue for the country. These factors led to stagnant economic growth and a just a limited impact on poverty reduction in that period. However in the past two decades, poverty rates have declined substantially from 51.7% in 1991-92 to 28.5% in 2005-2006.

This is due to significant improvements in economic growth, accompanied by sound social and economic policies on poverty under Ghana's Growth and Poverty Reduction Strategy. Ghana is well on track to become the first country in Africa to achieve the Millennium Development Goal (MDG) of halving poverty and hunger from 1990 levels by 2015.

C. THE IMPACT OF MICROFINANCE ON POVERTY

Poverty is more than just a lack of income. Adjei highlights the short comings of focusing solely on increased income as a measure of the impact of microfinance on poverty [1]. He states that there is a significant difference between increasing income and reducing poverty. He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends what the poor do with this money, often times it is gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to "sustain a specified level of well-being" by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

D. ABOUT CRAN

The Christian Rural Aid Network (CRAN) is a rural development organisation established in 1993 with its seat in Cape Coast in the Central Region of Ghana. It is registered as an NGO (under the Companies Code 1963, Act 179) with the Registrar General's Department (Registration No: 56925), and also with the Department of Social Welfare (Registration No: DSW/671). CRAN is also an active member of the Ghana Association of Private Voluntary Organisations in Development (GAPVOD) as well as the Ghana Micro-Finance Institutions Network (GHAMFIN).

CRAN has as its broad aim to promote the socio-economic development of the rural poor and by that working and contributing in a most professional and qualitative manner towards ensuring an improved quality of life for the over 60% of Ghana's

population who reside in mainly squalid and distressed rural communities. CRAN's work is based on the values of Christian motivation and obligation towards the development of the individual as a whole. In this regard it employs and promotes 'demand-led' or self-help strategies towards rural community development and rural poverty reduction.

II. RESEARCH METHODOLOGY

The research study was conducted to highlight the contribution in reducing poverty through Microfinance programme on CRAN clients of Hohoe municipal assembly and the surroundings communities.

Quantitative and qualitative approaches were used to determine the activities of CRAN in poverty reduction through Microfinance. The research study covers 5 officials of the CRAN Microfinance programme and sixty (60) beneficiaries of CRAN's Micro finance scheme from Ve-wudome community, Santrokofi Berua, Santrokofi community, Akpafu Mempeasem, Likpe Balla community, Ve-Gbordome and Ve-Agbome community in the Volta Region of Ghana. CRAN was chosen because of its strategic location in the area. It is branched at the market circle close to the market with a lot of the market women and petty traders as its customer's base. Again, it is one of the most important Micro finance in the Volta Region with a very large client base. CRAN is also a Micro finance institution noted for providing lending services but also social services to poverty communities in Ghana.

The personal interview was a face to face interaction. This method was purposefully selected so that the researchers could interact on a personal level with all

selected community members. The researchers administered the questionnaires which contained series of structured questions which were related to the research work and directed to respondents with the aim of gaining first-hand information. The questionnaires consisted of both open ended and close-ended questions. Thus, in some cases, respondents were to choose the option that best reflected their opinions. The questionnaire afforded respondents much flexibility and privacy in answering the questions without any undue influence. The questionnaire was in simple and unambiguous language and as such, did not pose any problem as regards interpretation.

III. RESULTS AND DISCUSSION

A. SEX COMPOSITION OF RESPONDENTS

The results from figure 2 indicate that out of the total of 60 respondents covered 54 representing the larger group were females and 6 males. This indicates that even though majority of microfinance program participants are women there is a growing male participation in the microfinance program of the CRAN.

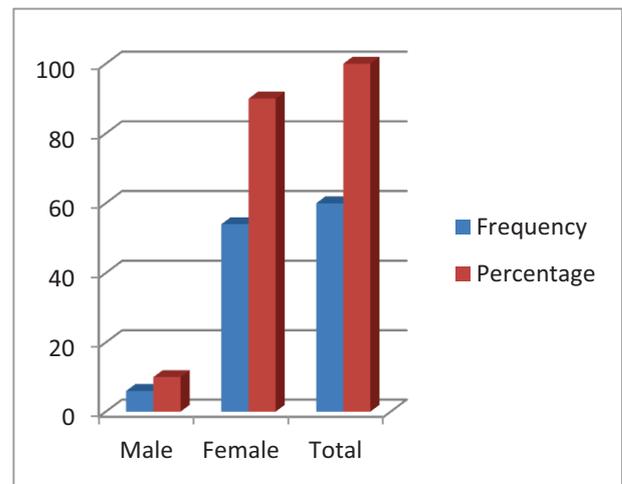


Figure 3.1: Sex Compositions of Respondents

B. MARITAL STATUS OF BENEFICIARY RESPONDENTS

As illustrated in Figure 4, as many as 81.67% of the respondents were married while 13.33% had never being married and another 5% being widows.

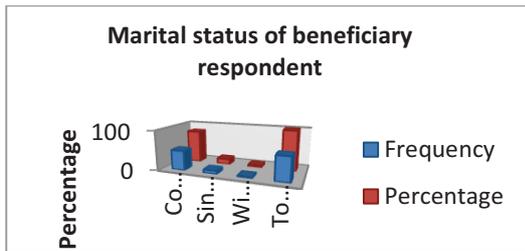


Figure 3:2 Marital Status of beneficiary Respondents

C. OCCUPATION OF RESPONDENTS

The occupation of the respondents was also analyzed and the results are set out below in Figure 6 From the figure it is clear that most of the microfinance participants were in trading business for 60 percent because one of the CRAN requirements or the most important criteria is to be involved in trading or doing it before getting access to loan. Then the occupation is closely followed by people who are employed in the farming business either as farmers or farm trader representing thirty three (33) percent. Respondents

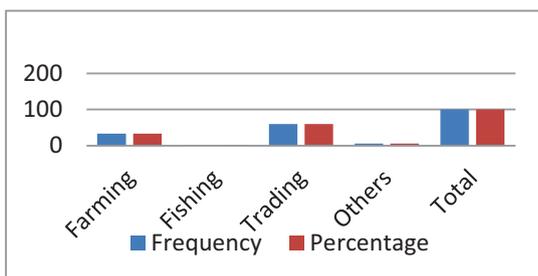


Figure 3:3 Occupations of the Respondents

employed in other businesses like sewing, hairdressing, carpentry, veterinarian and food cooking business constituted 6% percent while

hunting constituted only one (1) percent of the respondents.

D. THE CONTRIBUTION OF CRAN THROUGH MICROCREDIT OR LOAN TO POVERTY REDUCTION

Table 10, figure 8 below clearly show that as much as 98% of CRAN Microfinance beneficiaries agree that micro credit or loan has helped reduce their level of poverty and only 5% said that microcredit has not improved their poverty levels. The research gave a positive answer to the question of whether micro credit can reduce rural poverty. It also proves that the rural poor with access to credit can acquire some assets and this will go a long way to reduce poverty.

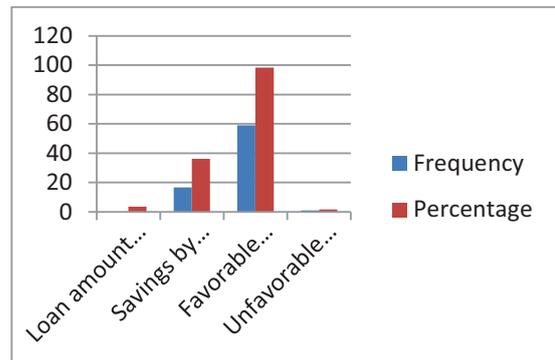


Figure 3:4 Contribution of CRAN to Poverty Reduction

E. SOURCES OF FINANCE FOR BUSINESS PRIOR TO JOINING THE MICROFINANCE PROGRAM

Of the 60 participants covered by the research 31 individuals had gotten their initial funding to start their business from family members either husband, uncle, sister or brother. This is closely followed by twenty two (22) people who started their businesses with their own efforts through selling farm products,

sewing of cloths or selling food. Also five (5) respondents got funds from other private money lenders. Only two (2) of the respondents had purchased stock on credit. It must be noted that most microfinance businesses are family centered with the whole family engaged in them. This could explain why family members help each other with funding to set up their businesses.

Others also engage in trade by purchasing items/goods on credit terms for resale and effecting payments when stocks are sold out with terms between two weeks and one month.

The amount of credit participants have been able to access from the CRAN Microfinance ranges from GH¢ 1,000.00 to GH¢ 16,100.00. However it must be noted that almost all the participants started their businesses with own funds before accessing the other sources of funding.

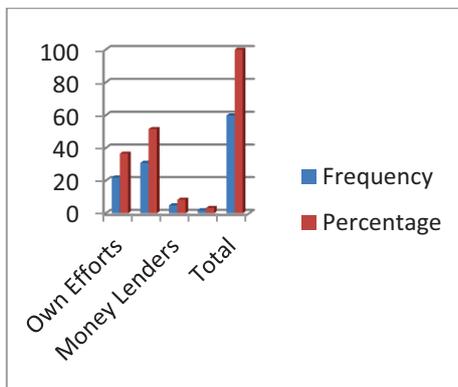


Figure 3:5 Source of finance for business prior to joining the microfinance program

F. EFFECTS OF MICROFINANCE ON BUSINESS OPERATIONS

This question generated varied responses from the respondents. Significantly, it can be seen that to the

respondents their participation in the microfinance program of the CRAN has had a beneficial effect on their businesses.

Results indicate that 25 of the respondents for trading had now stopped buying their trading stocks on credit and are now using the microfinance loans as capital for their business. Therefore the respondents said that they can now purchase stock with cash. Fourteen (14) of respondents said they have increased their trading stock. Before it was difficult for the respondents to get sustainable quantity of stock for their businesses. But now their trading stock have been considerably increased due to the loan granted and can now purchase more items for trading implying that they have expanded and diversified the number of items they purchase for trading. Sixteen (16) of the respondents indicated that they have had increases in working capital to meet other expenses incurred in the day-to-day running of their businesses. They do not now have to take money from their trading capital to meet recurrent expenditure. Three (3) respondents who were all traders said they had been able to put up their own stores or changed their temporary trading structure to a more permanent one.

A further two (2) beneficiaries said they have used the loans to acquire more assets for their businesses. These assets included farm materials, sewing machine and one motorcycle.

G. EFFECTS OF MICROFINANCE ON HOUSEHOLD LIVING STANDARDS

In addition to the effects on the businesses of the beneficiaries they were also asked about the effects on their household living standards. The results showed that Twenty two (22) people responded that

the microfinance loan had helped them to be able to get income to pay their children's school fees. This means that the well-being of their children is of paramount importance to them when they join the microfinance scheme. This combined with the ten (10) people, nine (9) females and one (1) male, who said they are able to purchase clothing for their children, which implies they consider the well-being of children to be a contributing factor for people joining the microfinance scheme. Of the twenty two (22) beneficiaries who responded that there are able to pay their children school fees, two (2) were males and twenty (20) females. This shows that women in the rural areas generally are more involved with their children's education than their male counterparts. Fourteen (14) respondents said that the MF scheme has helped them to contribute to housekeeping for the family. Of this number thirteen (13) were women with only one (1) person being a male. This provides a proof that when women are able to earn income they generally contribute significantly to the well-being of the household by providing for their needs. Five people said they are now able to pay for their monthly utility bills as they fall due, while 9 respondents each said that they can now save more.

H. THE CHALLENGES ASSOCIATED WITH THE OPERATIONS OF THE SCHEME

The contribution of the CRAN Micro finance institution to Poverty reduction through its microfinance scheme also faced some challenges. Like any Microfinance institution in the Region, the first challenge comes from the default of payment of the loans. Even though this risk of defaulting is

mitigated by the membership groups, still a major challenge.

Another challenge is the Risk management of weak collateral system. The disbursement of the micro credit or loans in the rural areas is based on the faithfulness and capacity of the beneficiary to pay back the loan. But also on the amount of loan received which is generally small. For these reasons no collateral is required for the loan and that could lead to the risk of default of the beneficiary. In the case of CRAN most of the clients are faithful and reliable to their groups or associations.

IV. CONCLUSION

Generally, it came out that microfinance impacts positively on all the variables. These findings are consistent with what Asemelash (2002), Littlefield Murdoch & Hashmi (2003), Kyeyunek Charles (2007), found. Again, majority of the respondents reported that their expectations were met and they were satisfied with the efforts of the microfinance institutions. They, however, asked for expansion in the amount given to them by the CRAN Microfinance and also the expansion of the repayment period of the loan which currently runs for one week. Some of CRAN's microfinance participants included in the research requested for a loan repayment in two weeks. They said, one week payment is too short and sometimes the business is not good during the week. It is important to mention that future studies should look at expanding the sample size to give way for generalization of the results and consider how other institutions such as the Church, Municipal and District Assemblies,

government and the NGO could play a role in poverty reduction.

Also the most targeted clientele of most of MFIs including the CRAN are women. Exclusive lending to women began in the 1980s when Grameen Bank found that women have higher repayment rates, and tend to accept smaller loans than men. Subsequently, many microcredit institutions have used the goal of empowering women to justify their disproportionate loans to women.

The research found that almost all the respondents ninety eight 98 percent of beneficiaries of the CRAN Microfinance programme are favorable or satisfied with the contribution of CRAN in providing them with loans and assistance. The respondents in their expectations even asked for more and more loans to help them expanding their businesses operations and achieve other objectives. Some respondents expressed the desire for school facilities for their children. It must be noted that CRAN has also a social welfare programme that takes in consideration the children education and supporting rural school children with scholarship. CRAN has been doing very well in the education of children because some of the beneficiaries of CRAN scholarship are today doctors, nurse, lawyers etc.

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