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## **Creating Opportunities for the Rural Poor through Micro-Finance Programmes in Ghana: A Performance Appraisal**

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**ABSTRACT** - Ghana features a rather predominantly rural agrarian economy with 60 percent of its labour force engaged in agriculture. The government of Ghana has been thoughtful in bringing forth rural micro-finance schemes in support of the poor rural communities. These credit programmes allow for even the very poor who have reasonable frontier economic resources but are handicapped by low skills, poor basic economic infrastructure, lack of social capital, and absence of financial institutions to be up and doing. Micro-finance constitutes an innovative savings and credit delivery mechanism. It emerged as a result of the inadequate safety net for the vulnerable segments of society. Micro-finance and poverty reduction strategies are therefore intricately related since the former has the potential of linking the formal banking system with the poor through savings mobilisation and the promotion of entrepreneurship endeavours. In Ghana, the banks have been hesitant to enter into micro finance because of the eminent risks of dealing with the poor. There is, however, ample empirical evidence that micro-finance is profitable with the banks if their profit-centred approaches are complemented with customer friendly savings and loan products. The Poverty Alleviation Fund and Women Development Fund Micro-finance Programmes are two of the State Sponsored Microfinance Programmes (SSMFPs) that have since the operationalization of the Ghana Poverty



## ***Creating Opportunities for the Rural Poor through Micro-Finance Programmes***

Reduction Strategy been providing loan services to poor rural micro-enterprises. This paper presents a performance review of the two programmes in the Komenda - Edina - Eguafo - Abrem (KEEA) District in the Central Region of the country.

**KEYWORDS:** Rural poor, Micro-finance, Appraisal, Ghana

### **INTRODUCTION**

Ghana features a rather predominantly rural agrarian economy with 60 percent of its labour force engaged in agriculture. Within the five decades after its independence in 1957, various strategies have been adopted by government towards achieving rural development. In Ghana, rural development will amount to structural change and transformation symptomatic to growth, wealth creation and poverty reduction not only in the rural areas but also nationwide. Majority of the rural people live in poverty although their environment is well endowed with both human and material resources. To these factors of production, capital (finance particularly) must be added for entrepreneurs to eke out products for the creation of basic needs and wealth.

Micro-finance constitutes an innovative savings and credit delivery mechanism. It emerged as a result of the inadequate safety net for the vulnerable segments of society. Micro-finance and poverty reduction strategies are therefore intricately related since the former has the potential of linking the formal banking system with the poor through savings mobilisation and the promotion of entrepreneurship endeavours. In Ghana, the banks have been hesitant to enter into micro finance because of the eminent risks of dealing with the poor. It is the marginalisation of the poor that necessitated the intervention of government to institute the micro-finance programmes to unleash transforming forces of credit required to create value and meaning to their lives. There is ample empirical evidence that micro finance is profitable with the banks if their profit-centred approaches are complemented with customer friendly savings and loan products (Sharma, 2004).

Over the years, attempts have been made by Government to address the capital scarcity vault in the rural areas by initiating rural microfinance programmes. The establishment of the Agricultural Development Bank and the Rural Banks System in the 1970s by the government was to expand savings mobilization and credit services in rural areas not served by the formal banking system. The Government also launched a number of special credit schemes since 1989, usually at subsidized rates (Quainoo, 1997).

The current national development frameworks, the Growth and Poverty Reduction Strategy (Rep. of Ghana, 2005) and its predecessor the Ghana Poverty Reduction Strategy (NDPC, 2002) all acknowledge the fact that the transformation

of the rural economic situation must include the provision of micro-credit programmes to promote agro-based industrialization and increased productivity in non-farm business ventures. Since the inception of the GPRS, 20 percent of the District Assembly Common Fund (DACF) has been designated in support of productivity increase and income generation, popularly referred to as the Poverty Alleviation Fund (Republic of Ghana, 2002). Other government microfinance schemes initiated since 2001 include the Ministry of Women and Children's Affairs (MOWAC) fund for poor women with limited collateral, the Social Investment Fund, HIPC benefits micro-loans scheme and the Emergency Social Relief Project (ESRF) meant to provide loans to the economically active poor at 20 percent interest rate between 2002 and 2004. Disbursements of funds in all cases are made through Rural and Community Banks (RCBs), Savings and Loans Institutions and Non Governmental Organizations (NGOs), who evaluate and the beneficiaries (republic of Ghana 20002).

### **Problem Statement**

It is worth noting, however, that while in some instances these programmes have served to make wholesale funds available to local Rural Microfinance Institutions (RMFI) for on-lending, more commonly repayment by beneficiaries has been a problem (Kakum Rural Bank, 2005). The major challenge to sustainable rural microfinance from these State Sponsored Microfinance Programmes (SSMFPs) therefore comes from the negative response from the beneficiaries to the efforts of Rural Microfinance Institutions (RMFI) to collect from them, when loans are known to come from government or donor funds (KEEA District Assembly, 2005).

Following Government recognition that solely state-owned development and rural banks cannot efficiently assist the credit components of rural development, new alternative financial services have been introduced in rural areas (Republic of Ghana 2002). The main objective of the study was to undertake a review of nature and performance rural microfinance programmes initiated by the government in the rural areas. It sought to analyse the challenges and prospects that respectively constrain and enhance the opportunities of rural livelihoods developments to inform policy and practice for necessary policy orientation and action.

This study explores the major challenges and prospects of these State Sponsored Microfinance Programmes (SSMRPs) by reviewing the performance the case of two of such programmes identified in the Komenda-Edina-Eguafo-Abrem District (KEEA). These comprise the Poverty Alleviation Fund Microfinance Programme (PAFMP) and the Women Development Fund Microfinance Programme (WDFMP). The Poverty Alleviation Fund and Women Development Fund Microfinance Programmes are two of the State Sponsored Microfinance Programmes (SSMFPs) that have since the operationalization of the Ghana Poverty



### *Creating Opportunities for the Rural Poor through Micro-Finance Programmes*

Reduction Strategy been providing loan services to poor rural micro enterprises (Steel and Andah, 2004).

However, the major issues of contention facing the programmes since their operationalization have been their sustainability and expansion to an extent sufficient to have an impact on rural development (Steel and Andah, 2004). Present performance data from the KEEA District Assembly and the overseer banks suggests problems of as low coverage rate as 0.2 percent and poor attitude towards repayment by beneficiaries.

In view of the significant role these microfinance schemes play in the socioeconomic growth of the rural economy, there is the need for strategic government intervention to arrest these inherent challenges. This underscores the need for an in-depth study to be conducted to assess the performance of the micro finance programmes to provide the necessary data and understanding.

### **Research Methodology**

The research design focused on the performance indices of the two Government initiated microfinance programmes within the study area (KEEA). The data collected covered:

- A. Beneficiaries of the two state sponsored micro-finance programmes selected by random sampling. Data drawn from the beneficiaries include annual business outputs, annual revenue and expenditure, number of dependants, amount of paid back loans and proportion of borrowers above poverty line since the programmes were initiated.
- B. The Institutions (Kakum Rural Bank/Akatakymian Rural Bank) that oversee the execution of the programmes. Data collected from these institutions include;
  - Outreach - Number of active borrowers
  - Client poverty level - Average outstanding balance per borrower or account (How poor the beneficiaries are)
  - Collection performance - how well the loans are being recovered, Loans at Risk (LAR), Current Recovery Rate (CRR) and Annual Loan-loss Rate (ALR).
  - Financial sustainability - Size of loan portfolio and the ability to expand the scheme without continued injections of subsidies or donor funds.

**Sample Selection:** The sampling frame for the survey is a list of the beneficiaries of the two programmes. The sample sizes were calculated and drawn using the formulae below:

$$n = \frac{N}{1+N(a^2)}$$

Where  $n$  is sample size,  $N$  is sample frame and,  $a$  is margin of error.

According to Kakum and Akatakyiman Rural Banks (2005), 630 rural micro entrepreneurs are benefiting from the Poverty Alleviation Fund Microfinance programme whilst 400 women are also benefiting from the Women Development Fund Microfinance programme (MOWAC-KEEA, 2005). For the purposes of this study, a confidence level of 95 percent was chosen (this gives a five (5) percent margin of error) for the sample size for both the PAFMP and the WDFMP. The sample selected comprised 176 beneficiaries for the PAF programme and 112 beneficiaries for the WDF programme.

### **Highlights of Basic Concepts**

**Microfinance:** Microfinance refers to small financial transactions with low-income households and micro enterprises (both urban and rural), using non-standard methodologies such as character-based lending, group guarantees, and short-term repetitive loans. Rural finance includes other instruments and institutions specifically intended to finance rural activities, both farm and off-farm such as food processing and petty trade. The common elements are that the clients being served typically lack the characteristics (e.g., titled property as collateral) required by commercial banks or are located beyond the reach of commercial bank branches (World Bank, 2004).

**Microfinance Institutions (MFIs):** Quite simply, a microfinance institution is an organization that offers financial services to small scale enterprises or low income populations. Almost all of these offer micro credit and only take back small amounts of savings from their own borrowers, not from the general public. Within the microfinance industry, the term microfinance institution has come to refer to a wide range of organizations dedicated to providing these services: NGOs, credit unions, cooperatives, private commercial banks and non-bank financial institutions (some that have transformed from NGOs into regulated institutions) and parts of state-owned banks. The term “rural microfinance institutions” (RMFIs) is used to refer collectively to the full range of these institutions – though recognizing that they use different methodologies to reach different clientele among farmers, rural households, the poor, and micro enterprises (World Bank, 2004).

### **Distinctive Features of Rural Microfinance Programmes**

According to the World Bank a well designed rural microfinance programme whether for profit or not has the following parameters (Reinke, 1998, World Bank, 2003):

- (i) **Target Group:** Some schemes specifically target micro credit at women because women are usually seen as being economically less independent than men in the same social group, and benefits from their economic



## *Creating Opportunities for the Rural Poor through Micro-Finance Programmes*

empowerment are argued to extend more directly to their children. Another important target group is the unemployed youth who due to insufficient job creation by the formal sector may well be seen as a threat to society.

- (ii) **Payment Mechanisms:** A wide variety of methods have been developed and successfully applied. Cash-carrying credit officers are now the exception rather than the rule. A well-designed transfer system would not only send money, but also information. Employing cash-carrying village level credit officers may still be appropriate especially where no other transaction system exists or where the amounts involved are below the minimum stipulated by other banks.
- (iii) **Loan Size:** Loan size follows the decision of the target audience. If the very poor are aimed at, then loans should be very small. If the capital requirement of entrepreneurs is high, loans need to be large. This view defines loan size from the perceived loan needs of the borrowers. While there is little to disagree with such a view, it should be considered that loan size is a principal weapon in fighting opportunism. Just the right dose of credit rationing may help to enforce repayments.
- (iv) **Charges and Interest Rates:** Charges and interest rates need to be set high enough to cover costs. Redistribution objectives sometimes influence the level of interest rates, or the range of services offered. Although even large and supposedly successful institutions subsidise their interest rates, the paradigm on cost-recovery persists (Reinke, 1998).
- (v) **Training Programmes:** The benefits of linking credit with training are many; the most important effects are self-selection and capacity building. When access to credit is conditional on undergoing training, many beneficiaries come to appreciate the value of training (Reinke, 1998).

## **Performance Measures for Rural Microfinance**

Microfinance interventions produce better results when design, reporting, and monitoring focus explicitly on key measures of performance. Unfortunately, many projects fail to include such measurement. The four core areas to measure performance of rural micro-finance schemes, whose objectives may include serving the poor, are as explained below (World Bank, 2004):

- (a) **Outreach:** Expanding the number of clients being served is an ultimate goal of almost all microfinance interventions. The best measurement of outreach is the number of beneficiaries or accounts that are active at a given point in time. This indicator is more useful than the cumulative number of loans made or clients served during a period. Among other distortions, cumulative numbers makes a scheme offering short-term loans look better than one providing longer-term loans. The recommended measure counts

active beneficiaries rather than “members” in order to reflect actual service delivery: members may be inactive for long periods of time, especially in financial cooperatives.

- (b) **Client Poverty Level:** Many, though not all, microfinance projects are expected to reach poor clients. There are various techniques for measuring client poverty levels, some quite expensive and others simpler, but as yet there is no widespread agreement on any one of them. If the project does not use a more sophisticated indicator, it should at a minimum use the Average Outstanding Balance formulae as a measurement for the poverty level of loan or savings services at a point in time. Refer to Appendix 4 for formulae interpretation.
- (c) **Collection Performance:** The standard international measure of portfolio quality in banking is **Portfolio at Risk (PAR)** beyond a specified number of days. **Loans at Risk (LAR)**, is another simpler indicator that counts the number of loans instead of their amounts. An alternative measure, the **Current Recovery Rate (CRR)**, can also be computed by most microfinance institutions, and gives a good picture of repayment performance, but only if it is interpreted very carefully. Refer to Appendix 4 for formulae interpretation.
- (d) **Financial Sustainability (Profitability):** Financial sustainability is the measure of the ability of a microfinance institution to maintain itself and grow when continuing subsidies are no longer available. To determine this, normal financial information must be “adjusted” to reflect the impact of the present subsidies. Two subsidy-adjusted indicators are in common use: Financial Self-sufficiency (FSS), and the Subsidy Dependence Index (SDI).

### Micro-finance Schemes in Ghana

The first formal micro finance scheme in Ghana arose out of the micro savings product of the Post Office System. The service was upgraded to Post Office Savings Bank under the Savings Bank Act 1962 (Act 129), to operate independently within the Post Office System. It attained full bank status as National Savings and Credit Bank in 1972 under NRC Decree 38. The new management abandoned the use of the network of the Post Office System and developed its own, leading to the destruction of the micro savings product (Anin 2000). The micro financial system in Ghana falls into three main categories: Formal, Semi Formal, and Informal Financial Schemes.

**Formal Financial System:** Formal financial institutions are incorporated under the Companies Code 1963 (Act 179). This gives them the legal identities as limited



### ***Creating Opportunities for the Rural Poor through Micro-Finance Programmes***

liability companies. Subsequently they are licensed by the Bank of Ghana under either the Banking Law 1989 (PNDCL 225) or the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328) to provide financial services under Bank of Ghana regulation (GHAMFIN, 2003). The formal financial schemes are operated by the development banks, the Agricultural Development Bank particularly in the rural areas, and the Rural and Community Banks.

***Semi Formal Financial System:*** Non-Governmental Organizations (NGOs) and the Credit Unions, Savings and Loan Companies constitute the semi formal system. The institutions are formally registered, but are not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty focus leads them to relatively deep penetration to poor clients using microfinance methodologies, though mostly on a limited scale (GHAMFIN, 2003). These are operated by non-banking

***Informal Financial System:*** The informal financial system covers a range of activities known as *susu*, including individual savings collectors, rotating savings, credit associations, and savings and credit “clubs” run by an operator. It also includes moneylenders, trade creditors, self-help groups, and personal loans from friends and relatives (GHAMFIN, 2003).

***Government Initiated Credit Programmes:*** The Government is undertaking micro credit schemes through poverty alleviation programs and the District Assembly Common Funds (DACF). These schemes are sometimes funded under the sponsorship of donor agencies. In 2001 for example the government established an Emergency Social Relief Project meant to provide business loans to the economically active poor at 20 percent interest rate over the 2002-04 periods. Disbursements were made through RCBs, S&Ls and NGOs, who evaluate the beneficiaries. Other programmes are under the HIPC funds and Social Infrastructure Funds (GPRS, 2002).

### **The Study Area: Komenda - Edina - Eguafo - Abrem (KEEA) District**

The Komenda - Edina - Eguafo - Abrem (KEEA) District of the Central Region of Ghana, is bounded on the north by Twifu Hemang Lower Denkyira District and on the south by the Gulf of Guinea. Cape Coast municipality forms the eastern boundary whilst Shama Ahanta East forms the western boundary. The KEEA district covers an area of 372.54 kilometers (919. 95 square miles). According to the 2000 Ghana Population and Housing Census, the population of KEEA District Assembly was 111,985 with a growth rate of approximately 2.09 percent. The KEEA district has 165 settlements of which are two major towns

with population above 10,000 people. These are Elmina (22,098) and Komenda (10,728). Two other important centres Kissi (5,008) and Abrem Agona (4,983) have populations above 4000. These four urban and semi-urban settlements constitute over 33.8 percent of the district's population. As much as 66.2 percent of the population lives in rural communities.

### **The Rural Economy**

The district has many small scale enterprises located throughout the district which offer employment opportunities to many people. These include boat making, oil extraction, and services such as tailoring, dressmaking, barbering, and hair dressing. Salt making is also an important industry in addition to alcohol, brick and tile and sawmills can be found in several areas.

Agriculture is the backbone of the district's economy. Over 85 percent of the population is engaged in either fishing or production of food and cash crops. Fishing is done along the coastal stretch of the district whilst farming is done inland towards the northern parts of the district. Agricultural activity is dominated by subsistence farming with most farmers relying on traditional technologies in production. Average farm sizes are between 2 and 3 acres. Cash crop production is done on a limited basis. Crops such as citrus, cocoa and palm oil are grown in the northern forest fringes of the district. Sugar cane is also cultivated extensively in the district. The potential for processing citrus into fruit juice, jam and marmalade for the local market is great (KEEA Development Plan, 2003).

The district is home to Ghana's most patronized tourist sites which include the Elmina Castle and Fort St. Jago that have been designated as World Heritage Monuments by the World Heritage Foundation under UNESCO. The is important in terms of seasonal, colorful and glamorous festivals which include the Edina Bronya and Bakatue that attract people from all over Ghana and beyond. The Dutch Cemetery, built in the Nineteenth Century contains the graves of former Governors of the Castle as well as prominent Local Citizens. The 'Dumpo' (a sacred hill) at Abrem serves as a lighthouse for fishermen. Beach lovers are assured of a relaxing experience on the district's exotic beaches.

### **Microfinance Schemes in KEEA**

Currently, there are only two formal banking institutions which operate micro-finance projects targeted at groups engaged in various income generating activities in catchment areas. These institutions, Kakum and Akatakyiman Rural Banks beside their normal banking schedules operate credit unions closer to the rural communities. Among others, the objective of these financial institutions is to enhance their target clientele's access to financial services by assisting the productive poor. To these financial institutions, the productive poor constitute women in the



### *Creating Opportunities for the Rural Poor through Micro-Finance Programmes*

informal sector and the unemployed youth who have completed training as well as the smallholder producers in agriculture. The major semi-formal financial institution (NGO) is the Christian Rural Area Network which has its district office at Elmina.

#### **Poverty Alleviation Fund Microfinance Programmes (PAFMP)**

In line with the objectives of the Ghana Poverty Reduction Strategy, that the small and medium scale enterprises in the informal sector offer significant opportunities for increases in productivity and employment. Therefore 20 percent of the District Assembly Common Fund (DACF) popularly referred to as the poverty alleviation fund is currently being targeted in support of micro-enterprise development especially within the 152 rural settlements in the district. The Assembly is executing this programme with support from the Kakum and Akatakyiman Rural Banks. According to the KEEA District Assembly, as of January 2004 a wholesome amount of ₵484,457,765.68 had been given as loans to individuals and groups. Out of this figure, the two overseer banks, Kakum and Akatakyiman Rural Banks have been able to retrieve only ₵90,439,500.00, leaving out an amount of ₵394,018,265.68 to be retrieved (KEEA News Bulletin, 2003). The District Finance Office, however, reports that as of February 2005 an amount of ₵581,219,170 had been given out as loans to prospective rural micro entrepreneurs (KEEADA, 2005).

#### **Social Investment Fund (SIF) Microfinance Programmes**

The Social Investment Fund set up for the Ghana Poverty Reduction Programme performs other microfinance activities aside physical developments. In KEEA District the SIF supplemented the financing of rural based agro enterprises between 2003 and 2004. This additional support was operated by the District Assembly with the assistance of the National Board for Small Scale Industries (NBSSI) and the two rural banks. The NBSSI was responsible for monitoring and evaluation of outputs and outcomes whilst the rural banks by which the fund was held, monitored expenditure.

#### **Women Development Fund Microfinance Programme (WDFMP)**

In a bid to reduce the difficulties and constraints faced by women in obtaining funds for financing small and micro enterprises, the Ministry of Women and Children's Affairs (MOWAC) has established a women's special micro financing fund to be made available to women, especially those in rural and deprived areas. The objectives of the fund are to help in the development of women-owned enterprises, augment their earning from agricultural, processing and marketing activities, and acquire resources for future investments. The District Office of the MOWAC in KEEA District Assembly oversees the running of the fund. The fund

is made available as micro finance to women, by on-lending to Kakum and Akatakyiman Rural Banks. Women smallholder farmers and entrepreneurs form coalition groups and apply to source these funds through a district steering committee established by MOWAC. The Kakum and Akatakyiman Rural Banks are responsible for the recovery of the loans. According to the District Office of MOWAC about 400 rural women engaged in micro activities have benefited from the programme. Each of the women is entitled to an amount of ₦500,000 with an overhead interest rate of 20 percent per annum (MOWAC, 2005).

### **HIPC Benefit Micro-loans**

The loan, which was from the HIPC benefits, was made specifically to help the forty six beneficiaries repair and expand their salt production facilities and acquire machinery for efficient operations. The loan scheme was part of efforts to identify and assist small scale salt winners with credit and technical know-how to enable them improve productivity under the President's Special Initiative in salt production. However, the possession of mining licences was a prerequisite for accessing the loan facility which was manned by the Kakum Rural Bank (KEEADA, 2005).

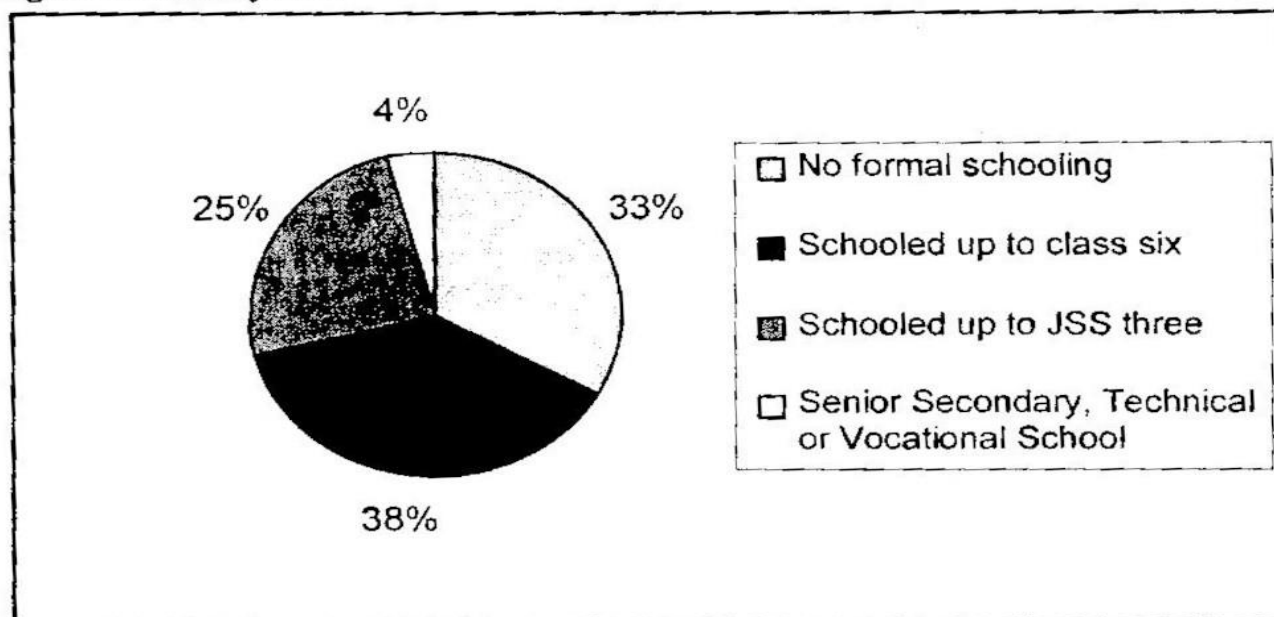
### **The Characteristics of the Beneficiaries**

According to the survey conducted, out of the 1030 beneficiaries of the two Government Initiated Microfinance Programmes, 772 (75 percent) are women whilst 258 (25 percent) are men. The high number of women beneficiaries comes from the WDF programme whose target group is mainly women.

**Literacy Level:** In order to get a clearer overview of the literacy levels of the beneficiaries, four levels of education were applied to classify them. These are; those who have not had formal schooling, those who schooled up to class six, those who schooled up to JSS three and those who schooled up to the Senior Secondary School, Technical or Vocational Schools. Figure 3.1 presents a picture on the literacy level of the 1030 beneficiaries.



**Figure 1: Literacy level**



Source: Author's field survey

The illiteracy level (33 percent) had an implication on training programmes and simple financial management. Most illiterate beneficiaries expressed difficulty in understanding certain basic principles of records keeping and accounting.

### **Business Occupation and Management**

Commerce and service together form the major economic sector that employs about 63 percent of the beneficiaries. The basic micro businesses in this sector include, petty trading of domestically produced goods such as smoked fish, gari, cassava, yam and other farm produce. Traders in this field form about 69 percent whilst 20 per cent trade in foreign goods like used clothes and provisions. Service activities such as hairdressing store operators form 11 percent. The agro base industry employs 20 per cent of the beneficiaries in gari processing, palm oil extraction, bakery, fishing and palm wine production. Agriculture employs 17 percent of the beneficiaries in the subsistence production of citrus, pineapple, tubers, sugar cane and vegetables. However the production of citrus and pineapples forms a large percentage (60 percent). Fifty six percent (56%) of the beneficiaries however have secondary occupations. Many (63 percent) of the beneficiaries had no written business records whilst 37 percent kept simple income and expenditure records. The low business records keeping explain why management of business finance is poor and savings low (only 20 percent of the beneficiaries save) amongst the beneficiaries.

## **Savings**

Out of the 1030 beneficiaries only 20 percent are able to save. Out of this figure 51 percent save with susu companies and 15 percent do personal savings whilst the remaining 36 percent save with the rural banks. Annual Revenue as defined here refers to the total annual returns generated by beneficiaries in the various occupational sectors after sale of total volume of goods produced.

**Table 1. Annual Incomes Generated from Principal Occupations**

Sector	Average Annual Revenue
Agriculture	¢1,500,000
Commerce and Service	¢2,200,000
Industry (agro based)	¢2,500,000

Source: Authors field survey, 2005

It can be inferred from table 3.2 above that annual income from agriculture is lower than the income from other sectors. This lower income generation is attributed to post harvest losses as well as the subsistence system of agriculture. More so, low records keeping and poor financial management in the commerce and service and agro based industry reflects the low revenues generated.

## **Poverty Analysis**

In order to clearly understand the poverty status of beneficiaries, annual incomes generated by businesses supported by the GIRMPs have been categorized into three levels with reference to the GPRS poverty line analysis<sup>2</sup>. In assessing the poverty of the people, the poverty line analysis was adopted. In 1999, the Ghana Living Standards Survey established 900,000 cedis and 700,000 cedis as the upper and lower poverty lines in Ghana respectively (GSS, 2000: pp.5). To update the value of these lines to prevailing conditions as at the time (2005) of the study, they have been discounted per the formula below:

$$A = P (1 + r)^n$$

Where, A- Present Value

P-Base Amount

r- Rate of inflation (using the prevailing rate of inflation of 16 percent)

n- Number of years

The discounted upper and lower poverty lines obtained and used in the analysis were 2,500,000 cedis and 2,000,000 cedis respectively.

### ***Creating Opportunities for the Rural Poor through Micro-Finance Programmes***

Whilst 20 percent earn between €2,000,000 and €2,500,000 and in relative poverty 65 percent earn below the lower poverty line of 2,000,000 per annum and are in extreme or hard core poverty. Only 15 per cent earn incomes above €2,500,000 and are therefore not considered as poor.

**Table 2. Income Levels of Beneficiaries**

Income levels	Percentage of Households	Poverty line
Income above poverty line	15	€2,500,000 per annum-poverty
Income below poverty line but above hard core poverty	20	€2,000,000 per annum-hard core poverty
Income below hard core poverty line	65	
Total	100	

Source: Authors field survey, 2005

### **Nature of State Sponsored Micro Finance Programme**

Akatakymian and Kakum Rural Banks were contracted on franchise by the KEEADA to oversee the issue of loans to beneficiaries in the district. Under the contract agreement, the Overseer Banks will use their own staff, and facilities in their operations. The overseer banks are entitled to 10 percent of all collected loans per annum. As part of the agreement, the subcommittees in charge of the programmes at the KEEADA are supposed to monitor the activities of the loans as well as the Overseer Banks. In this respect, shortfalls and difficulties with collection of repayments can be easily and quickly detected and appropriate measures taken in time to address problems and improve performance.

### **The Target Group and Loan Size**

The two SSMFPs have specific target groups. The WDF Microfinance Programme for instance targets 100 percent at women whereas the PAF Microfinance Programme targets micro entrepreneurs regardless of gender. Both programmes however target borrowers of the age group between 18 to 60 years. Occupation wise, the target beneficiaries are engaged in economic ventures such as farming, agro processing, food evacuation, fish processing and general trading. Table 3.4 below gives the absolute figures of the amount and number of loans allocated to male and female entrepreneurs alike in the various economic activities.



Table 3. Borrower Characteristics

CHARACTERISTICS		WDFMP	PAFMP
GENDER	<u>Number of Loans</u>		
	Women	400	372
	Men	0	258
	<u>Amount Loaned</u>		
	Women	¢200,000,000	¢372714576.57
	Men	0	¢258,495,593.43
ACTIVITY	<u>Number of Loans</u>	80	126
	Industry	252	397
	Commerce	68	103
	Agriculture		
	<u>Amount Loaned</u>	¢4,000,000	¢126,242,034
	Industry	¢126,000,000	¢397,762,599.19
	Commerce	¢34,000,000	¢103,197,853.81
	Agriculture		

Source: Akatakyiman and Kakum Rural Banks, 2005

It can be inferred from table 3.4 above that women attract more loans from the GIRMPs than men. This is because women beneficiaries of the two programmes have proven to be credit worthy. According to the two Overseer Banks, women borrowers tend to have high repayment rates (about 75 percent) than men (55 percent).

### Beneficiary Selection and Payment Mechanisms

A loan contract is characterized by its terms and conditions. Contractual dimensions such as loan size, repayment schedule, real effective interest rate, and monthly payment determine which people find borrowing to be welfare-improving. Beneficiaries of the PAFMP and WDFMP are selected by district sub committees in charge of the programmes through applications made by prospective borrowers.

An average micro loan of ¢500,000 goes for both programmes at an interest rate of 20 percent per annum. However with the PAFMP, depending on how an applicant is able to put across his case, close to 10 million could be awarded to him as loan. About 50 beneficiaries are working with loans above the average ¢500,000 given. The repayment schedule for the WDFMP is designed such that women group heads are held responsible for loans acquired. The 20 percent interest rate could be divided bi-annually in which case a borrower pays 10 percent in the first biannual and another 10 per cent in the second biannual. Because the PAFMP does not operate with groups, payment is done directly to the banks in charge. This condition allows for easy evasion of payment.

### Training Programmes and other Benefits

Backup and follow-up support programmes are offered in the case of the WDFMP. These programmes are used as monitoring and evaluation as well as

### *Creating Opportunities for the Rural Poor through Micro-Finance Programmes*

financial capacity improvement mechanisms for the female beneficiaries. Training on book keeping and simple financial accounting are provided. The programmes are not however regular because of the administrative expenses involved, a provision which is not supported by the Women Development Fund. Programmes of such nature are unfortunately nonexistent in the case of the PAFMP.

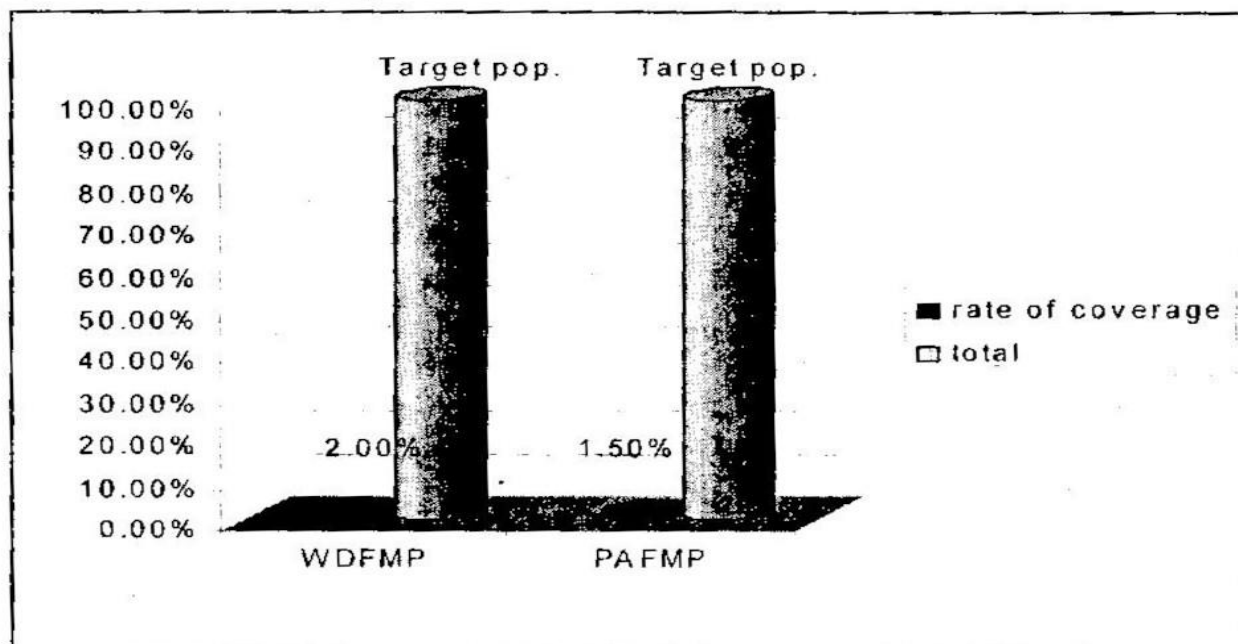
## **ASSESSMENT OF OPERATIONAL PERFORMANCE**

The framework for assessing the performance of the SSMFPs is based on the World Bank financial systems approach which has been accepted among academics and practitioners of rural microfinance (World Bank, 2003). The approach focuses on four criteria: outreach, collection performance, financial sustainability and socioeconomic impact.

### **Analysis of Outreach**

Outreach is commonly proxied by the size of loan (which is a direct ratio of the loan portfolio from the Common Fund and WDF), the number of beneficiaries and the percentage of targeted population being served. The average loan size of both the WDFMP and PAFMP is ₦500,000 per beneficiary, with average annual loan portfolios of 200,000,000 for the former and 170,000,000 per annum for the latter. In all the WDFMP is serving 400 beneficiaries out of the over 20,000 people in the target group. This represents percentage coverage of 2 percent. The PAFMP is serving 630 beneficiaries out of the over 40,000 people in the target group. This also represents percentage coverage of 1.5 percent.

**Figure 2: Rate of Coverage**



Source: Akafakyiman and Kakum Rural Banks, 2005

A considerable look at the picture created here therefore depicts a very low outreach for both programmes. See figure.2.

Shown in Table 3.5 below is a breakdown of the various output indicators in 2003 and 2004. It can be inferred from table 3 that the loan portfolio of the PAFMP dropped from ₦174.3 million in 2003 to ₦170 million in 2004.

**Table 4. Outreach Indicators**

INDICATOR	2003		2004	
	WDFMP	PAFMP	WDFMP	PAFMP
Avg. no. of 1st-time borrowers	200	210	200	180
Number of loans disbursed	200	345	200	340
Average loan size	₦500,000	₦500,000	₦500,000	₦500,000
Amount disbursed/Loan Portfolio	₦100M	₦174.3M	₦100M	170M

Source: Akatakyiman and Kakum Rural Banks, 2005

The actual percentage share of the PAFMP from the District Assembly Common Fund (DACF) is subject to changes in the amount of money released into the Common Fund. As a matter of interest, the percentage allocated to districts for the PAFMP has decreased since 1994 from 10 percent to 2.3 percent (KEEADA, 2005).

### Collection Performance

Repayment of micro loans is a crucial indicator of performance. Poor collection of micro loans is almost always traceable to management and systems weaknesses. High loan delinquency makes financial sustainability impossible. The Average Outstanding Balance is one indicator that shows the poverty level of borrowers. The computation takes into consideration loan amounts that borrowers have not yet repaid. From table 3.6, gross amount of loans outstanding amount to ₦105,550,250 for the WDFMP and ₦450,121,000 for the PAFMP. This means on the average each WDFMP borrower owes an amount of ₦263,875.63 whilst a PAFMP borrower owes ₦714,477.77. The implication of the level of loan poverty amongst beneficiaries is made clearer when a direct comparison of the Average Outstanding Balance is made with the Gross Domestic Product.



## Creating Opportunities for the Rural Poor through Micro-Finance Programmes

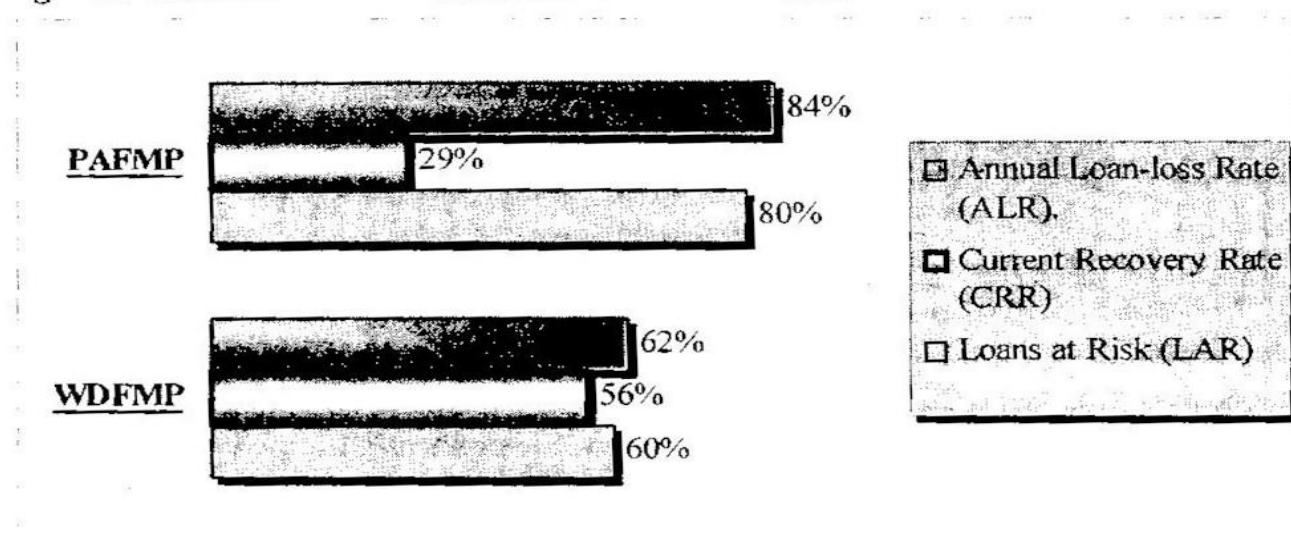
**Table 5: General Programme Performance Indicators**

INDICATOR	WDFMP	PAFMP
<b>Client poverty level</b>		
Gross amount of loans outstanding	£105,550,250	£450,121,000
Average outstanding balance per beneficiary	£263,875.63	£714477.77
<b>Loan Recovery</b>		
Number of loans more than 2 years late	171	423
Total number of outstanding loans	295	529

Source: Author's compilation from the records of Overseer Rural Banks, 2005

Figure 3.3, provides information on the collection performance of the two programmes. The three major indicators used are Loans at risk ratio, Annual Loan Loss Rate and the Current Recovery Rate. As the caption suggests, the annual loan loss rate looks at the percentage of loans that are lost annually due to non-payment. Figure 3.3 indicates that the

**Figure 3: Collection Performance of PAFMP and WDFMP**



Source: Author's compilation from records of Overseer Rural Banks, 2005

PAFMP has an annual loan loss rate of 84 percent, implying that most of the loans given out in a year go unpaid. The WDFMP, however, has an annual loan loss rate of 62 percent. The latter is low because of the well organized nature of the women groups.

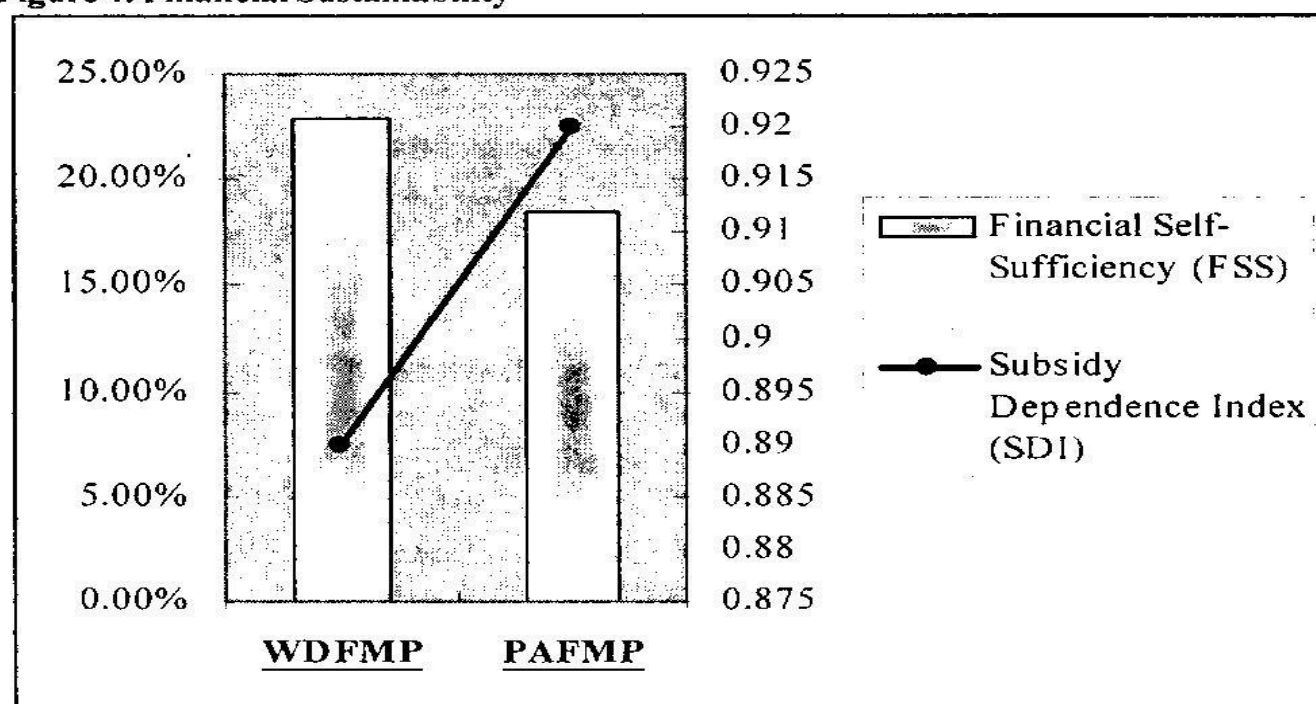
The Current Recovery Rate represents at the percentage of loans that are recovered annually by the overseer institutions. Figure.3 indicates that the PAFMP has a recovery rate of 29 percent, implying a very low repayment rate. The WDFMP, on the other hand, has Current Recovery Rate of 56 percent. Loans at risk look at the percentage of loans that are likely to be written off because clients

cannot pay. These were 80 percent and 60 percent in the cases of the PAFMP and WDFMP respectively. Portfolio or Loans at Risk above 10 percent, or Annual Loan-Loss Rates above 5 percent, must be reduced quickly or they will spin out of control (World Bank, 2003).

### Financial Sustainability

Financial Self-Sufficiency (FSS) is a subsidy-adjusted indicator often used by donor-funded microfinance programmes. It measures the extent to which a programme's business revenue—mainly interest received—covers the programme's adjusted costs. If the FSS is below 100 percent, then the programme has not yet achieved financial break-even. Figure 4 below shows financial sustainability rates of 23 percent and 17 percent for the PAFMP and the WDFMP respectively. Obviously these rates are far below 100 percent meaning that the two programmes are not yet near financial sustainability.

**Figure 4: Financial Sustainability**



Source: Author's compilation from the records of Overseer Rural Banks, 2005

The SDI is a financial tool developed to measure the reliance of a microfinance scheme on subsidies. The index measures how much the average lending interest rate would have to be increased to compensate for complete and immediate subsidy elimination. The lower the SDI, the more sustainable the scheme. The SDI measure does not mean that adjusting interest rates is feasible in all cases. Successful rural finance schemes vary greatly in their dependence on

### *Creating Opportunities for the Rural Poor through Micro-Finance Programmes*

subsidies. Measuring the performance of credit programmes is not accomplished by the uniform application of narrow criteria. A positive SDI indicates, instead, that commercial profitability would require a higher rate of return on the portfolio than that being earned.

Figure 4 plots the SDI for the PAFMP and the WDFMP. The high SDI for both programmes (0.89 and 0.92) has resulted from reduced operational efficiency. The SDI reveals however that both programmes are not profitable in accounting and commercial terms.

### **Socio-economic Impact**

The twin objectives of any microfinance scheme are financial viability and maximization of access to the poor (outreach). While it is a difficult juggling act to be able to reach the poorest of the poor and remain financially sustainable, it is nonetheless the poor that make up the clientele and provide for the successes of the scheme (Reinke, 1998). In assessing the impact of programmes, it is necessary to take into account how well the scheme contributes to the beneficiary's ability to:

1. Increase, stabilize and diversify their revenues;
2. Have access to basic goods and services, food and medicine among others for their households;
3. Improve household living conditions, in particular those of women;
4. Increase household wealth; and
5. Increase participation in economic and social life as well as fostering autonomy among various population groups.

If microfinance programmes can be acknowledged for improving the lot of beneficiaries as a result of their level of access, it is a good indication that the microfinance programmes will be sustainable in the long term.

**Table 5 Socio-economic Impact**

INDICATOR	2003		2004	
	WDFMP	PAFMP	WDFMP	PAFMP
% of borrowers below poverty line	75.0	82.0	75.3	82.4
% of borrowers having owed for 1 year	27	20	28.1	21.3
more than 2 years	-	-	64.2	75.1

Source: Kakum and Akatakyiman, 2005

It is virtually evident from table 3.6 above that the GIRMPs have not achieved so much in terms of socioeconomic impact. Although it is quite early to judge the impact of the programmes in less than five years of operation it is important to assess, how far they have achieved socio-economically.



As at the end of 2004 when the Women Development Fund Microfinance Programme had been in operation for almost three years, almost 75.3 percent of its beneficiaries were still below the poverty line. This figure represents the number of people who have received the loans over the three year period. According to the beneficiaries the loans received from the two programmes were the only source of credit for their businesses. Incidentally this figure was an increment of the previous year's (2003) figure of 75 percent. Moreover, the WDFMP had 64.2 percent of its beneficiaries owing for two years. Beneficiaries in this group represent those who for the past two years of borrowing the loans have not been able to pay back the loans. Respondents in this category expressed causes of inability to pay to be late arrival of loans and small size of loans. In addition close to 75 percent of its beneficiaries had not paid back the loans in over two years. As a rule of thumb any effective microfinance programme needs at most two years to help its beneficiaries repay back their loans and improve financially (Reinke, 1998).

### **The Challenges**

The programmes are not financially sustainable because of high loan loss and low recovery. The high subsidy dependence (80 percent for WDFMP and 90 percent for PAFMP respectively) of the programmes proves the limited sustainability of the programmes. In terms of the socio-economic impact of the programmes on beneficiaries, very little has been achieved since 2003.

#### **(a) *Inadequate Resource Mobilization for Outreach***

This challenge is compounded by the low rate of repayment by borrowers. If Rural Microfinance Programmes do not place importance on this, their outreach efforts will be limited and restricted to their grant funding.

#### **(b) *Low Repayment Rate***

The challenge of the SSMFPs is low repayment rate. This challenge can, however, be traced to the method of choosing beneficiaries. Since choice of beneficiaries is centralized at the District Assembly, credible facts concerning the credit worthiness of borrowers are overlooked. If the choice of beneficiaries were left in the care of the overseer banks, prerequisites would ensure that guarantors have accounts at the banks, and also a beneficiary is engaged in a potentially viable venture before awarding loans.

A connective obstacle to the above problem is limited monitoring by Overseer Institutions through regular visits to ensure smooth running of businesses and good use of the loans. The banks have failed to do the monitoring because they have no knowledge of the status and location of the beneficiaries. If the banks were in charge of choice of borrowers, the possibility of monitoring would be

### ***Creating Opportunities for the Rural Poor through Micro-Finance Programmes***

stepped up by the banks who would be interested in the profitability of their basic returns on loans awarded.

The strongest repayment incentive for uncollateralized micro loans is not peer pressure, but rather the client's desire to preserve his future access to a loan service he finds very useful to him. Thus, healthy repayment rates are a strong signal that the loans are of real value to the clients. As the loans are known to be coming from government, most borrowers claim it is their right to go for these loans and not a privilege making repayment a burden. The timing of the loans is also a major challenge to repayment. One feature of the programmes is that the loans do not arrive from the government coffers in seasons when the loans are critically needed. This phenomenon virtually results in the beneficiaries wasting the monies on other needs rather than the required activity.

#### ***(c) Challenges on Financial Sustainability***

The challenge to the GIRMPs is limited financial sustainability of the two programmes. High loan delinquency (loans at risk of nonpayment) and high subsidy dependence has virtually reduced the sustainability of the programmes. Analyses clearly indicate that loans at risk rate (84 percent and 64 percent for WDFMP and PAFMP respectively) and annual loan loss rate (80 percent and 60 percent for WDFMP and PAFMP respectively) are highly above the 10 percent loans at risk rate and 5 percent loan loss rate recommended by the World Bank. As a rough rule of thumb, Portfolio or Loans at Risk above 10 percent, or Annual Loan-Loss Rates above 5 percent, must be reduced quickly or they will spin out of control (World Bank, 2003).

#### ***(d) Limited Socio-economic Impact***

An obstacle to repayment as expressed by the beneficiaries is limited socio-economic impacts of the loans. Although quite early to judge the impact of the WDFMP and the PAFMP, the few years that they have been in existence has not performed so well in terms of socioeconomic impact. With an average of 70 percent of borrowers still below the poverty line in three years and almost 75 percent still owing in the second year of borrowing the loans, the socio-economic impact of the programmes is not encouraging.

### **PROSPECTS AND SUGGESTIONS**

One specific programme model for financial services and micro enterprise development cannot be recommended for all situations. However, certain basic technical and socio-economic criteria can be employed; reaching the poor, providing easy access to savings and credit services, mechanisms for cost recovery and financial sustainability. Combining credit and savings, and credit with other socio-economic programmes also ensure better participation and sustainability.

**(i) Award Loans to Joint-Liability Groups**

The first of two central innovations in microfinance is the joint-liability group in which all borrowers are liable for each other's debts. Loans to individuals are usually less successful than cooperatives. Although members may exclude the poorest, allowing self-selected groups can ensure that members screen for risk, trust each other, and believe that they have power to enforce repayment through social sanctions. Without self selection, groups are mere façades.

**(ii) Allow Overseer Banks to Choose Beneficiaries**

It will be appropriate to award the task of choosing beneficiaries to the overseer banks. The major reason here is that they can easily judge the credit worthiness of borrowers based on savings records. In this way, the overseer banks act like the local moneylender or store-owner who judges the creditworthiness of a borrower through their knowledge of the character and cash flows of a potential borrower. Otherwise guarantors who have accounts at the banks will have to guarantee for potential borrowers and in case of default charged as such. If this directive is taken debtors will be forced to pay as such. The overseer banks will also be able to monitor service delivery and socio-economic impact, and assist in management information systems.

**(iii) Encourage Saving Habits**

Promoting efficient savings mobilization could more effectively enable the poor to accumulate funds and greatly reduce the demand for credit offered by donors and NGOs. Savings instruments are increasingly recognized as a highly valued financial service that enables the poor to cope with life cycle events and the general mismatch of income flows and consumption expenditures (World Bank, 2003). Indeed, programmes that offer both savings and loan products consistently reach far more poor clients through savings than through credit. Borrowers should be motivated to repay loans by using character references or group lending with joint liability to motivate repayments. A public image that signals seriousness about loan collection should be created.

**(iv) Promote Training Programmes**

Training needs of beneficiary groups should be periodically assessed and attended to. Beneficiary groups should be periodically given training in basic book-keeping and financial management. These regular trainings will build their capacity to manage funds, save and improve their businesses outputs.



**(v) *Support Rural Microfinance Institutions (RMFIs) rather than Direct Financing***

Above all the government should shift emphasis away from direct financing of micro businesses substantially toward supporting RMFIs that provide small loans and savings services. This directive falls in line with the World Bank's mission towards the reorientation and application of microfinance methodologies that extend outreach of financial services to low-income clients while more effectively pursuing institutional self-sustainability and subsidy independence. It should focus on building up strong internal controls by developing local savings and credit associations or cooperatives; and encouraging capacity-building of RMFIs before expanding loan funds.

Financial institutions are only as strong as their clients. Besides strengthening RMFIs directly, their ability to reach the poor can be enhanced by improving the abilities of households to manage their economic and financial activities and of rural communities to work cooperatively, whether for group-based microfinance methodologies or to manage their own Savings and Credit Associations (SCAs). Social funds, for example, can help improve the capacity of the rural poor to utilize credit and mobilize savings through grant-based "social intermediation" programmes that build social capital and skills.

**(vi) *Shift from Direct Financing to Capacity Building***

The government can otherwise shift the poverty-focused microfinance programmes to build up skills in poor communities. This will go a long way to lay a foundation for income-generating activities and access to microfinance (rather than directed microfinance programmes that tend not to be sustainable). Basic investment in skill training is needed to lay a basic foundation for local economic and financial development, making it easier to take advantage of available opportunities, and raising the productivity of labor.

**Conclusion**

Promoting access to microfinance is an important strategy towards development in the rural areas in Ghana. Small credits and micro loans allow the rural entrepreneurial poor who are already engaged in viable but low-productivity economic activities or who have good investment opportunities and are constrained principally by lack of access to financing to acquire some capital base. It allows the very poor who have reasonable economic opportunities but are handicapped by low skills, poor basic economic infrastructure, lack of social capital, and absence of financial institutions; as well as the extreme poor or destitute in areas with very low economic potential to be up and doing.

The government of Ghana has been thoughtful in bringing forth the rural microfinance schemes in support of the poor rural communities. However, the

preceding discussion and the experience suggest however that Low outreach, high beneficiary poverty level, low recovery rate, high annual loan loss rate and high subsidy dependence ratio are challenges to the sustainability of these financial support programmes.

A complementary appropriate approach is to raise the economic potential of these communities and individuals and their ability to utilize finance. Supporting income-generating activities in areas with low economic potential would include public investments in infrastructure (e.g., irrigation), technology, and market development for crop production; or interventions to raise the ability of individuals to manage businesses and finances and of communities to form cohesive groups that can intermediate between members and external sources of finance.

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