# MICROFINANCE AND POVERTY REDUCTION IN GHANA: EVIDENCE FROM POLICY BENEFICIARIES

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**ABSTRACT**

*Poverty is a concept that applies to all humans and more seriously to people in the developing world. The deadly effect of poverty on the poor necessitated a worldwide research into ways of reducing its impact. An important tool in fighting poverty is microfinance which has gained prominence over the last few decades in countries hardly hit by the menace. Studies have shown that microfinance has produced certain successes in poverty reduction. Other schools of taught argue that microfinance has not had the much touted impact. This study ascertained the impact of microfinance on poverty reduction in Ghana. The study employed economic and social variables such as individual income, household growth, access to education, housing and participation in social and religious activities as benchmarks for measuring the impact. Questionnaires were administered to 60 customers and beneficiaries of microfinance products of two major microfinance institutions in Ghana: Opportunity International Savings and Loans Ltd. and Sinapi Aba Savings and Loans Company Ltd. The study found a positive relationship between microfinance and the benchmark variables and recommended training for beneficiaries to ensure efficient use of funds and creation of sound political and economic environments so microenterprises can thrive.*

**JEL:** O15, O16

**KEYWORDS:** Microfinance, Poverty Reduction, Impact Assessment, Ghana

## INTRODUCTION

Poverty has become an albatross for most countries and individual households especially in developing countries. About one billion people globally live in households with per capita incomes of less than one dollar per day (Morduch, 1999). The grave economic and social impact unleashed on the poor in developing countries led to keen interest on the part of donors, policy makers and practitioners who work very hard to expand access of the poor to microfinance. Even though, microfinance disburse small amounts, if properly harnessed can have a knock-on effect and contribute significantly to the wellbeing of the poor. Microfinance can increase investment among the poor and empower them economically. Currently, the focus of microfinance is no longer on credit for investment in micro enterprises. The attention of the entire microfinance community is on the diverse needs of clients, the broader financial ecosystem and the transformational nature of technology (World Bank Handbook on Microfinance, 2013). The objective of microfinance is not to provide credit for the poor to fight poverty alone, but also to create institutions that will deliver financial services to the poor who are ignored by the conventional commercial banks (Otero, 1999).

In Africa and other developing countries microfinance institutions (MFIs) are the main source of finance for microenterprises (Anyanwu, 2004). In Ghana, microfinance institutions fill a gap created by the refusal of traditional commercial banks to give credit to microenterprises. While traditional commercial banks provide credit based on collateral, microfinance institutions (MFIs) provide credit to the poor who do not provide collaterals. Adjei, (2011) 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.

According to Aryeetey, (1994, 1996) only six percent of the population has access to formal financial services while a majority of the population are denied access. Interestingly, about 91% of the economically active population in Ghana is employed in the informal sector (UNDP 2007). 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 frameworks to direct the implementation of development plans in sectors and districts aimed at reducing poverty and improving the social wellbeing of the people. The Economic Recovery Program (ERP), introduced in 1983, was 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 (Asenso-Okyere et al, 1993). Further on, the Ghana Poverty Reduction Strategy (GPRS I, 2003-2005) was formulated to enable Ghana to benefit from a significant measure of debt relief available under the Highly Indebted Poor Country (HIPC) program and to position the country in an improved macroeconomic environment to address critical issues of poverty on an emergency basis. Under GPRS I, special social programs were put in place targeted at the vulnerable and the excluded. (IMF Report on GHANA July 2012). With respect to this, the GPRS I reflected a policy framework that was directed primarily at achieving anti-poverty objectives of the UN's Millennium Development Goals (MDGs).

These intervention programs produced mixed results toward reducing poverty. These included service delivery constraints and the persistence of regional differences in the distribution of key outcomes in the health and educational sectors. Against this background the GPRS II was adopted and implemented over the period 2006 and 2009 with emphasis on growth as a means to accelerate poverty reduction and to eliminate the worst manifestation of poverty, social deprivation and economic injustice, from Ghanaian society (IMF, 2012). Following the GPRS II, the government introduced the Ghana Shared Growth and Development Agenda (GSGDA 2010-2013) to achieve sustain macroeconomic stability while placing the economy on a higher path of shared growth, and poverty reduction. All these steps were attempts by the government of Ghana to fight poverty which has rendered 28.5% of the Ghanaian population poor and live below the poverty line (World Bank Report, 2006). Most of the poor are found in the informal sector which is characterized by lack of access to credit. This cripples development and growth of this sector of the Ghanaian economy. IMF May, 2003 country report observed that weaknesses in the financial sector that restrict financing opportunities for productive private investment are a particular impediment to business expansion in Ghana.

Microfinance is, therefore, a financial 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, plague with challenges including poor recovery rate, lack of capital for sustainability, inadequate credit delivery and management, inability to reach the most vulnerable and marginalized, regulation and supervision problems as well as high turnover of MFI staff.

The focus of this study is whether microfinance has been able to reduce poverty among the beneficiaries of its products. Social and economic variables employed include individual income, household growth, access to education, housing as well as participation in social and religious activities. The rest of the paper is structured as follows: Section II provides a review of the literature. Section III presents the data and methodology. Section IV provides results & discussion, and Section V concludes the study.

## LITERATURE REVIEW

According to Oterro (1999), microfinance is the provision of financial services to low-income poor and very poor self-employed people. To Ledgerwood (1999), these financial services are not limited to savings and credit but include other financial services such as insurance and payment services. Robinson (2001) defined microfinance as the supply of loans, savings and other basic financial services to the poor. To Irobi

(2008), microfinance is an economic development model intended to benefit the low-income part of society. Schreiner and Colombet (2001) defined microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Thus microfinance is the provision of financial services such as credit, savings, and insurance to the poor who cannot access such services from the formal financial sector. Microfinance has been credited with improving other financial outcomes including savings and the accumulation of assets as well as non-financial outcomes such as health, food security, nutrition, education, women's empowerment, housing, job creation and social cohesion (Afrane, 2002; Barnes, 1996; Barnes and Keogh, 1999; Beck, Demirguc-kunt, & Levine, 2004; Hietalahti & Linden, 2006; Hossain & Knight, 2008; Odell, 2010.

Poverty is a concept that applies to all humans and more seriously to people in the developing world. Poverty is defined as the deprivation of basic necessities of life such as food, shelter, accommodation, and clothing. At a UN Summit on social development 'the Copenhagen Declaration' (1995) poverty was described as a condition characterized by severe deprivation of basic human needs including food, safe drinking water, sanitation facilities, health, shelter, education and information. To the World Bank, (2002), a person is said to be poor when his or her consumption level falls below the poverty line of $1 per day. Narayan et al (2000) identified poverty as being complex and interwoven, including a material lack and need for shelter, assets, money and often characterized by hunger, pain, discomfort, exhaustion, social exclusion, vulnerability, powerlessness and low-esteem. In Ghana, poverty is identified as a composite of both personal and community life situations. On the personal level, poverty is reflected in an inability to gain access to basic community services (Batse et al 1999, Nsiah-Gyabaah, (1998). The Ghana Living Standards Survey (GLSS) of 2005 to 2006 defines poverty using an economic index, where the poor are seen as those "subsisting on a per capita income of less than two thirds of the national average" (Ghana Statistical Service, 2006).

Studies on poverty levels in Ghana reveal that poverty is multidimensional (Nkum and Ghartey, 2000) and vary from rural to urban people, the young and old as well as men and women. To rural people, poverty means lack of food, insecurity, infertility and inability to participate in social activities. Urban dwellers see poverty as lack of employment, inadequate social services, lack of capital as well as lack of skills training (Appiah, 1999, Nkum & Ghartey,2000). Men in Ghana associate poverty with lack of material assets, whereas for women, poverty is defined as food insecurity. The young in Ghana consider the ability to generate income as the most important asset, whereas older men cite status connected to a traditional agricultural lifestyle as most important (Ghana, 1995).

Morduch (2002) carried out a study on microfinance and poverty reduction using independent variables such as assets, education, microcredit, family size and income of household as dependent variable. The study employed the Consultative Group to Assist the Poor (CGAP) poverty assessment tools. The findings revealed a positive impact of microfinance on poverty reduction. According to Littlefield, Morduch and Hashemi (2003) there have been increases income and assets, and decreases in vulnerability of microfinance clients. They reference projects in India, Indonesia, and Uganda that have been able to reduce poverty among the poor and improve their general wellbeing.

Asemelash (2002) in Ethiopia confirmed a positive impact of microfinance on beneficiaries as compared to non-beneficiaries. He showed that microfinance has impacted positively income, asset building, and access to schools and medical facilities in the study area. Goldberg (2005) observed that with introduction of microfinance in Bangladesh, the poor no longer remained as poor. Mawa (2008) confirmed that microfinance is an innovative step towards alleviating poverty. In Ghana, evidence exists on the positive impact of microfinance and generally on women empowerment, increase in respect and decision rights within the family as well as increased self-esteemed (Cheston and Kulhn, 2002). To other writers, microfinance is a poverty alleviating tool, though it cannot solve the problem of poverty overnight

(Brownstein, Fleck, Shetty, Sorensen, & Vadgama, 2007). Siddiqi (2008) was not sure whether microfinance has a positive or negative impact.

## DATA AND METHODOLOGY

The research design employed in the study was descriptive research with particular reference to the case study method. The survey was undertaken in September, 2013. The study was conducted to ascertain the impact of microfinance products on beneficiaries of such lending facilities in the Sekondi-Takoradi Metropolis of the Western Region of Ghana.

The population consisted of beneficiaries of microfinance products from two major microfinance institutions: Sinapi Aba Savings and Loans Company and Opportunity International Ghana Company Ltd operating in the metropolis. Opportunity International Ghana Ltd was chosen because of its strategic location in the area. It is branched at the Market Circle close to the market with a many market women and petty traders as its customer base. Again, it is one of the world's largest microfinance organizations with a very large client base. Sinapi Aba Savings and Loans Company previously Sinapi Aba Trust is also a microfinance institution noted for providing lending services to poverty communities in Ghana. A sample size of 60 beneficiaries was selected based on purposeful sampling technique with the help of operation officers of the microfinance institutions. This helped ensure effective coverage and reduce time spent and cost.

The main instrument used for gathering data was a structured questionnaire titled ''Microfinance and Poverty Reduction in Ghana; Evidence from Policy Beneficiaries.'' Questions were structured with the objectives of the study in mind. It consisted of items that generated data for answering the research question. The questionnaire had three sections; Section A covered demographic information, Section B captured questions on type, purpose, size, duration and motivation of the facility. Section C concentrated on the impact of microfinance on specific social and economic variables such as income levels, education, family growth as well as participation in social and religious activities among beneficiaries. Validity of the questionnaire was confirmed by relying on the comments of two experienced experts. The questionnaire reliability was confirmed through the inter-rater reliability method. The demographic information of the respondents is presented in Table 1.

Table 1: Demographic Information of Respondents

| Variables | Category | Frequency | Percentage (%) | Frequency | Percentage (%) |
|---|---|---|---|---|---|
| Gender | Males | 12 | 40 | 5 | 16.7 |
| | Females | 18 | 60 | 25 | 83.3% |
| Educational Level | Junior High School | 19 | 63.3 | 16 | 53.3 |
| | Senior High School | 5 | 16.7 | 10 | 33.3 |
| | Higher National Diploma | 2 | 6.7 | 4 | 13.4 |
| | Bachelors | 4 | 13.3 | - | - |
| | Master | - | - | - | - |
| Occupation/ Profession | Petty Traders | 13 | 43.3 | 18 | 60 |
| | Market Women | 8 | 26.7 | 7 | 23.4 |
| | Farmers / Fishermen | 2 | 6.7 | 1 | 3.3 |
| | Transport Owners | 3 | 10 | 1 | 3.3 |
| | Teachers. | 4 | 13.3 | 3 | 10 |
| Age | 21 – 30yrs | 4 | 13.3 | 2 | 6.7 |
| | 31 – 40 Yrs | 16 | 53.3 | 11 | 36.6 |
| | 41 – 50yrs | 7 | 23.4 | 10 | 33.3 |
| | 51 – 60yrs | 3 | 10 | 7 | 23.4 |

*This table shows demographic information of the respondents of the two microfinance institutions. On the left are those of Sinapi Aba Savings and Loans Company Ltd and on the extreme right are those of Opportunity International Savings and Loans Company Ltd. A large percentage of respondents were females: 60% and 83.3% respectively. This is consistent with the idea that a large proportion of clients of microfinance institutions are women because women generally are good borrowers.*

Table 1 shows the demographic information of the respondents. A large percentage of respondents were women (60% and 83.3% respectively) and most were petty traders and market women. Again, a large portion of the respondents had high school certificates (63.3 and 53.3 respectively). This confirms the belief that most clients of microfinance institutions are not very educated. A large portion of the clients were women confirming the belief that women generally are good borrowers.

## RESULTS AND DISCUSSION (SINAPI ABA SAVINGS AND LOANS COMPANY LTD.)

Table 2 shows the purposes for which the respondents contract their credit facilities. Some 53% of respondents said they contracted the credit for business expansion and 37% said they contracted the loan to start their businesses. The remaining 10% used the loan for paying school fees for their children. This shows that a larger portion of respondents depended on micro finance for business start-ups and expansion. Hence, their very survival depended on microfinance. This re-echoes the importance of microfinance to the vulnerable and poor who cannot access funds from the traditional commercial banks.

Table 2: Purpose of Loan

| Purpose | Frequency | Percentage |
|---|---|---|
| Start a business | 11 | 37 |
| Expand a business | 16 | 53 |
| Pay school fees | 3 | 10 |
| Pay house rent | - | - |
| Family upkeep & growth | - | - |
| **TOTAL** | **30** | **100%** |

*The table above shows the purpose for which beneficiaries applied for credit. The results show 11 respondents representing 37% said they contracted the loan facility to start their businesses. Ten percent of beneficiaries said they took the loan to pay school fees of their children. Sixteen beneficiaries representing 53% said they contracted the loan to expand their business. This data confirms the importance of microfinance products to the poor who depend on it to start and expand their businesses for the very survival of their families*

Table 3 below shows the impact of microfinance on specific economic and social variables employed in the study. The variables included income levels, education levels, family growth and housing. The study found an improvement in the level of education and the general skill level of respondents and family after microfinance with 80% of respondents confirmed this finding. The remaining 20%, however, said there were no changes in the education and general skill level for themselves and family after microfinance. None recorded a decrease in educational level and general skill level of respondents and family.

Most respondents reported no change in their level of participation in social and religious activities after accessing microfinance. 83% of the respondents confirmed this. The respondents said that even though they accessed microfinance it has not impacted their level of participation in social and religious activities. Further, most respondents said they belong to one or two religious and social organizations and that their membership was not triggered by micro finance. Five respondents representing 17%, however, said their level of participation in social and religious activities improved after microfinance. None of the respondents recorded a decrease in the level of social and religious participation.

Some 28 out of 30 respondents reported of an improvement in family growth rate after micro finance. This represents 93% of the total respondents. With regard to the specific areas of growth within the family, 47% recorded improvement in family health, 26.5% each reported improvement in housing as well as food and security. None of the respondents reported improvement in security.

Table 3 further shows changes in income after the respondents accessed microfinance. Twenty-one out of the 30 respondents representing 70% of the respondents confirmed an increase in their income levels after accessing microfinance. The remaining 30% said that their income levels did not change even after accessing microfinance. None of them recorded a reduction in their income. This data confirms the positive relationship between micro finance and income levels as found by Morduch (2003). With asset-housing, respondents were asked about changes in asset-housing after accessing microfinance. Some 23 of 30 respondents reported an increased asset-housing. This represents 77%. Seven respondents reported no change in asset-housing.

Table 3 shows changes to income levels of respondents after accessing micro finance. Twenty-four respondents representing 80% reported an increase in their income levels after micro finance. The remaining 20% confirmed no change in their income levels after microfinance. None of the respondent reported a reduction in income levels. This data confirm the positive correlation between microfinance and income levels. The study reported an improvement in education and general skill level of respondents and family after microfinance. Twenty-six of the 30 respondents representing 87% confirmed this. Thirteen percent of the respondents reported no change in education and general skill level while none recorded a reduction. Ninety percent of respondents reported no change in their level of participation in social and religious activities. They confirmed that even though they belong to social and religious organizations, their membership was not triggered by access to micro finance. The remaining 10%, said their participation in social and religious activities improved after accessing micro finance.

Twenty-seven of the 30 respondents, representing 90 percent, reported on improvement in the rate of family growth. The remaining 10% reported no change in family growth. On the specific areas of family growth 43% reported accommodation and another 43% reported improvement in family health while 7% recorded improvement in food and another 7% reporting nutrition and security. The respondents further reported a relationship between microfinance and asset-housing. 16 of the respondents representing 53% reported no change in asset-housing while 47% reported increased asset-housing. The data revealed that even though the respondents access micro finance, a large portion of the loans go into businesses and family upkeep and not housing.

Table 3: Impact of Microfinance on the Benchmark Variables

| **Variable** | **SINAPI ABA Savings & Loans Company Ltd<br>% Change / after Microfinance** | **Opportunity International Savings & Loans Company Ltd<br>% Change after Microfinance** |
|---|---|---|
| Income level | 70% (↑) | 80% (↑) |
| Education and general skill level | 80% (↑) | 87% (↑) |
| Level of participation in social and religious activities | 17% (↑) | 10% (↑) |
| Family growth | 93% (↑) | 90% (↑) |
| Asset housing | 77% (↑) | 47% (↑) |

*This table shows changes that occurred to benchmark variables of the beneficiaries. On the left are those of the beneficiaries of Sinapi Aba Savings and Loans Company Ltd. and on the right are those of Opportunity International Savings and Loans Company Ltd. Beneficiaries of microfinance products in both institutions improved in their income levels (70% and 80% respectively), educational and general skill level (80% and 87% respectively), family growth (93% and 90% respectively). Generally, microfinance positively improved the lives of beneficiaries. This data resonate the belief that there is a positive correlation between microfinance and poverty reduction.*

## OPPORTUNITY INTERNATIONAL SAVINGS AND LOANS COMPANY LTD.

Table 4 shows responses of beneficiaries of microfinance products. It is interesting to note that 27 out of the 30 respondents representing 90% reported contracting the loan to expand their businesses while 7%

confirmed that they took the loan to start a business. The remaining 3% said the micro credit was used for family up keep and growth.

Table 4: Purpose of Loan

| Purpose | Frequency | Percentage |
|---|---|---|
| Start a business | 2 | 7 |
| Expand a business | 27 | 90 |
| Pay school fees | - | - |
| Pay house rent | - | - |
| Family upkeep & growth | 1 | 3 |
| **TOTAL** | **30** | **100%** |

*The table shows how the respondents used the loans they borrowed from Opportunity International Savings and Loans Company Limited. A larger portion of the respondents (90%) reported contracting the loan to expand their businesses with a few of them (7%) reported starting their businesses with the loans they contracted. The belief that microfinance institutions help beneficiaries to build and sustain their business was confirmed.*

Generally, results show that microfinance impacts positively on all the variables apart from level of participation in religious and social activities which was triggered by other factors and not microfinance. These findings are consistent with Asemelash (2002), Littlefield Murduch & Hashmi (2003), Mawa (2008). Again, a majority of respondents reported their expectations were met and they were satisfied with the efforts of the microfinance institutions.

We make the following recommendations to sustain microfinance and make it effective and fulfilling. Education and training should be provided for microfinance beneficiaries on how to efficiently utilize the funds. Interest charged on microfinance products should be reduced. Further, management and staff of microfinance institutions must be given the needed training and education to help build and strengthen the skill, competencies and abilities for effective service delivery. Efforts should also be made to reach the poor who are the target of microfinance policies and programs. Furthermore, since the poor do not have collateral, management and staff should make available to them tailor-made unsecured products. Loan products should be of a longer duration to give beneficiaries opportunities to generate future income out of the borrowed money. Loans should not be callable by the financial institution prior to maturity. Lastly, the Government should create sound political and economic environments for smooth operations and performance. Without such an environment, no business will thrive. Borrowers need sound economic environments to make a return on their borrowed funds.

## CONCLUDING COMMENTS

The main objective of this research is to ascertain the role of microfinance institutions in reducing poverty in Ghana. Successive governments in Ghana since the 1980's have put in place medium-term national development policy frameworks to direct the implementation of development plans in sectors and districts aimed at reducing poverty and improving the social and economic wellbeing of the people. The results of these interventions were mixed. We set out to investigate how microfinance has helped reduce poverty in Ghana.

The paper adopted the descriptive research methodology. A structured questionnaire was used to elicit information from the respondents. The respondents were clients who have benefitted from microfinance. The results indicate that those who access micro financing show improved income levels, education levels, family growth and housing. They reported improvements in the benchmark variables and a reduction in poverty levels.

The major limitation of this paper has to do with the sample size of 30 which makes it difficult to generalize the results. Future studies will attempt to increase the sample size to make generalization of the results possible. Again, other institutions such as the Church, Municipal and District Assemblies, and the Capital Market could be explored to find ways around the problem of poverty.

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