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PAPER

**“CURRENT MICRO CREDIT DELIVERY SYSTEMS
FOR RURAL POVERTY ALLEVIATION IN
GHANA”**

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ABSTRACT

Poverty is a problem that confronts majority of people in Ghana. In 1999, the poverty dimension was 5 out of the 10 regions had more than 40% of the people living below the poverty line of earning less than a dollar a day, with the worst affected being the three northern savanna regions of the Northern, Upper East and Upper West regions, (GPRS, 2002-2004).

In Ghana, gender studies have also shown that, women experience greater poverty, have heavier time burdens, lower rates of utilization of productive resources and lower literacy rates. Further poverty is by far highest among food crop farmers who are mostly women in the rural communities.(Dolphyne and Ofei- Aboagye, 2001).

Government of Ghana, with support from its Development partners has been implementing the Ghana Poverty Reduction Strategy (GPRS) over the past few years to reduce poverty and to improve the living standard of the people. Poverty reduction is therefore at the center-stage of Ghana's development agenda. And under Ghana's GPRS, the government has prioritized the provision of microfinance, small loans and related services as an important strategy for pursuing its poverty reduction strategy for job and wealth creation.

The government has therefore initiated favourable policies to alleviate poverty from various areas of concerns. Further effective micro credit / finance policies and strategies have been identified as a tool for development. The paper therefore discusses "innovative micro credit delivery systems for rural poverty alleviation" in Ghana, for presentation and circulation in the workshop at Bangladesh. Focus areas are new policies adopted by government; strategies, activities, experiences and challenges from Ghanaian micro credit delivery.

1.0 GENERAL / BACKGROUND INFORMATION ABOUT GHANA

Ghana is located in West Africa between Côte d'Ivoire, Togo and Burkina Faso and it borders the Gulf of Guinea. Ghana covers an area of 238,537 square kilometres and has an estimated population of over 18.8 million people (2000, Population Census), with about 52.2% female and 47.8% males. 70% of the total population lives in rural areas. It has 10 administrative regions and 138 districts, and recently (ending of February 2008) there were about 31 newly created districts launched. They are been supported and groomed to stand on their feet as independent districts and it's the governments strategy of making sure all communities benefit equitably from the sharing of the national cake. The major languages spoken are English, Akan, Ga-Adangme, Ewe and Mole Dagbani.

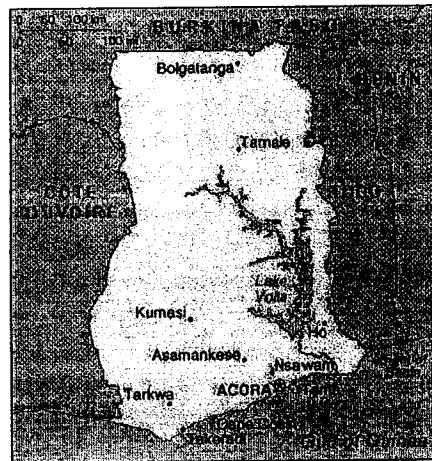
There is freedom of worship, 45% are Christians, 12% Muslims and others. The literacy rate is about 69%, with high illiteracy rate in the rural areas with more as women.

Ghana attained independence in 1957 from Britain and became a Republic in 1960. It has a central and democratic presidency, executive parliament, judiciary and good free press system. The name of the current president is His Excellency Mr. J.A Kuffour

Ghana is well-endowed with natural resources such as good agricultural land, forests (in the south-west), and mineral deposits of gold, diamonds, manganese and bauxite. Gold, timber and cocoa are the major sources of foreign exchange. With an annual production of about 45 tons of gold, Ghana has become the second largest gold producer in Africa, after South Africa. The domestic economy continues to revolve around subsistence agriculture, which accounts for 41% of GDP and employs 60% of the workforce, mainly small landholders.

In 1983, Ghana embarked in an economy recovery programme, backed by the IMF and the World Bank. Despite strong opposition from the public in response to the hardships caused by the economic reform measures, the economy started to grow significantly in the early 1990s, with an average growth of 4% per year. Despite Ghana's good record of debt servicing, its inflationary deficit financing, devaluation of the Cedi, and public discontent with the austerity measures remain challenges.

Ghana's telephone network has a capacity of over 158,600 lines and a telephone density of 0.81 lines per hundred population. The penetration of telephone lines is highly biased toward the urban areas, with the capital city Accra accounting for over 70% of the total lines. Ghana deregulated the telecommunications sector in 1994, launching the Accelerated Development Programme 1994-2000 in order to increase the density of telephone services in the country, to allow private participation in some sectors of the



industry, and to permit other network operators to have the same rights and privileges as Ghana. Ghana is a peaceful country with very hospitable citizens.

2.0 INTRODUCTION (GHANA'S POVERTY REDUCTION STRATEGY-GPRS)

Helping the poor to help themselves is the objective of most poverty focused development projects and developing countries, of which Ghana is not an exception. Poverty is a problem that confronts majority of people in Ghana and that was the reason why the country went HIPC (Highly Indebted Poor Countries) in 2000 (NDPC, 2005). In 1999, the poverty dimension was 5 out of the 10 regions had more than 40% of the people living below the poverty line of earning less than a dollar a day, with the worst affected being the three northern savanna regions (Northern, Upper East and Upper West).

It is manifested at the community level by the absence of or low level of basic amenities and services like potable water etcetera, it is reflected in very low levels of national income (GDP of \$400 per capita income), with widespread unemployment etc. Gender studies have shown that, women experience greater poverty, have heavier time burdens, lower rates of utilization of productive resources and lower literacy rates. Further poverty is by far highest among food crop farmers who are mostly women in the rural communities.(Dolphyne and Ofei- Aboagye, 2001). Though the country has since 2004 graduated from HIPC, with some significant improvement in the lives of the masses, yet there is more room for improvement, especially among the disadvantaged groups / communities.

Government of Ghana, with support from its Development partners has been implementing the Ghana Poverty Reduction Strategy (GPRS) over the past few years to reduce poverty and to improve the living standard of the people. Poverty reduction is therefore at the center-stage of Ghana's development agenda. The GPRS aligns its poverty reduction goals to the Millennium Development Goals (MDGs). Under Ghana's GPRS, the government has prioritized the provision of microfinance, small loans and related services as an important strategy for pursuing its poverty reduction strategy for job and wealth creation.

The government has therefore initiated favourable policies to alleviate poverty from various areas of concerns. And effective micro credit / finance policies and strategies have been identified as a tool for development. As such, the paper discusses "innovative micro credit delivery systems for rural poverty alleviation" in Ghana, for presentation and circulation in the workshop at Bangladesh. Examples from policies, strategies, activities, experiences and challenges would be shared as well.

3.0 CURRENT INNOVATIVE MICRO CREDIT DELIVERY SYSTEMS FOR RURAL POVERTY ALLEVIATION IN GHANA

Studies have shown that, the profile of poverty in Ghana is largely a rural phenomenon with agriculture as a dominant component. More than 60% of the population is in the rural areas of which 51% are women and are mainly engaged in agriculture or agriculture-based activities.

They have limited access to formal credit due to factors like low levels of literacy which renders them less confident to approach the banks and other financial institutions. In addition, funding among others like infrastructure, market has been identified as a major constraint to most potential producers. Consequently rural communities in Ghana have been isolated from viable markets resulting in high post harvest losses and their plight is worsening if nothing is done about it.

It is against this background that, the government realized that, there is the need to urgently adopt new policies, programmes and strategies in micro credit as a tool to poverty alleviation, wealth creation and growth generation. As such, NGOs, bilateral agencies, groups and individuals have been supported and co-opted to initiate programmes along-side. Discussed below are some of the innovative micro credit / finance delivery initiatives in alleviating poverty in Ghana by government, NGOs, other agencies, groups and individuals.

a) MiDA Funding for Financial Services Activity and Agricultural Credit Activity

The fund from MCA funds amounting approximately US\$82.4 million is being used for capacity building of PFIs, Financial Services Activity and Agricultural Credit Activity. The main objective of the project is geared towards poverty reduction. The benefits are transportation, storage, marketing, processing and related value-added activities of high value horticultural crops, such as fruits and vegetables and staple crops including cereals and tubers. Beneficiaries may either be organized as groups of Farm-Based Organisations (FBOs) or Micro, Small and Medium-sized Enterprises (MSMEs). Credit to FBOs is based on Group Lending Techniques. For a credit request to be processed, the potential borrower will have to present a business plan with a supporting environmental certificate. The amount requested will not be less than GH¢1,000. The terms and conditions of loans, such as loan amount, repayment is subject to negotiations between PFI and the loan beneficiary.

b) The Agricultural Credit Programme

MiDA is charged with the responsibility of managing the Ghana MCA Compact, signed an Implementing Entity Agreement (IEA) with Bank of Ghana to operationalise the Agricultural Credit and Financial Services Activities of the MCA. The stage had then been set for transformation of agricultural practices in 23 districts in Ghana, involving the promotion of commercial orientation to cropping, post-harvest, storage, transportation, processing and marketing of high value horticultural staple and food crops.

From Bank Of Ghana (BOG), funds would be disbursed through the Participating Financial Institutions (PFIs) which include Commercial Banks, Savings and Loans Companies, Rural Banks and Financial Non-governmental organisations operating in various communities. Among the selected districts are Savelugu-Nanton, Tolon-Kunbugu, Tamale Metro, West Mamprusi, Karaga, Ejura Sekyedwumasi, Kwahu South, Fanteakwa etcetera.

c) Women,s Special Micro Financing Fund (MSMFF)

The Ministry of Women and Children's Affairs (MOWAC) has established the MSMFF to minimize the difficulties women face in accessing funds to finance micro enterprises eg: cassava processing, etc. It was established in 2001 to benefit women especially those in deprived areas. The fund was deposited at BOG for on lending to MFIs with extensive branches and experiences in micro –credit. Cross-section of women smallholder farmers and entrepreneurs in groups and individual basis benefited. The interest rate is 20%.

d) Microfinance Network

It affiliates with Women's World Bank (WWB). The bank started in Ghana in 1983, and now has eight branches, including the Markola market branch as Head Office in Accra. There are about 7,000 members at the Makola branch and the minimum loan they give is GH¢50 (\$54) and maximum GH¢10,000 (\$10,800). Before a woman obtains a loan, she must first open a savings account and start putting some money aside. The idea is that, women should get used to setting aside money on regular basis, so that when it's time to take a loan, they can already have the habit of steady repayment. Women are not expected to use savings in repayment, but the bank restructures the loan for women with problems of repayment, instead of taking loan from their savings.

Through the maze and shops, staff of WWB goes round to collect monies for repayment. Women are very happy, since that saves their time. Borrowers routinely pay high annual interest rates between 15% – 40%, reflecting the special cost of these borrowers who don't qualify for standard bank loans and whose accounts must be serviced by itinerant loan officers.

e) International Year of Micro-Credit

This is seen as another step by UN to remind nations to accelerate our relentless efforts and battle against abject poverty and hunger, in our drive to realize the objectives of our GPRS within the context of meeting the MDGs. In Ghana the launching of the day has intensified collaboration and partnership among members. The outcomes of panel discussions and awareness creation programmes have become important tools for development partners, member institutions and civil society to re-strategise more effectively to deepen the provision of inclusive financial services to the marginalized people of our country.

In an effort for government to develop a national Microfinance Policy, the national committee sponsored about 10 professionals on an exposure visit to countries with best practices in microfinance system like Uganda, Ethiopia and Bangladesh. The exposure is to arm team to with first hand information on national policy, institutional and regulatory frameworks as well as capacity building and coordination mechanisms of the countries visited, in order to assist in formulating the Ghana Microfinance Policy (GHAMP). Some achieved milestone for celebrating IYMC are:-

- The message that microcredit plays an essential role in wealth creating opportunities and outcomes to reduce poverty.
- Better realization that the institutions are key poverty reduction agents and intermediaries.
- Could support government to develop a National Microfinance policy.

f) Establishment of Microfinance and Small Loans Center (MASLOC)

The government is committed to the development of the building of an inclusive financial sector and as part of its vision established a Microfinance and Small Loans Center (MASLOC) early in 2004 as an apex body for the judicious administration, coordination and monitoring of micro credit and small loan schemes and the promotion of decentralized Microfinancial System in Ghana. The government has resourced and has continued to endeavour to provide the required support for the center.

The current use of community / rural banks and women focused institutions as intermediary institutions of MASLOC deepens its strategy of building inclusive financial services. It is extending its services to Ghana Credit Union Associations, Ghana Cooperative Susu collectors Association, deserving NGOs, and Savings and Loans companies that provide services in rural communities.

g) Social Investment Fund (SIF)

SIF, a component of Ghana Poverty Reduction Programme (GPRP) in partnership with AfDB, UNDP and OPEC have provided about 20.8 million dollars for SIF Ghana. The fund has expanded its coverage from 6 pilot districts to 80 operational districts. Between 2001 and March, 2004, 110 projects valued at 15.4 billion cedis have been approved for 9 districts in the Central region.

It is a special fund set aside to provide direct assistance to urban and rural impoverished communities. It helps to increase the availability of basic economic and social infrastructure and services in poor communities and it also supports micro-finance institutions to improve their service delivery. And also strengthens the capacities of community-based organizations.

h) Enhancing Opportunity for Women In Development (ENOWID)

It started as the PAMSCAD wing for women in early 1990s. Offering micro-credit and entrepreneurial training for rural women small scale entrepreneurs in Ghana, under the economic recovery programme. It uses group and solidarity pressure system of Grammeen bank in Bangladesh and her recovery rate is very high (more than 90%).

Now, it is changing face by becoming a financial NGO. It still offers micro-credit to rural and urban poor women and they repay in agreement on either weekly or monthly instalments. ENOWID has added susu collection from nearby markets and they are doing very well. The NGO has a very dynamic leadership and is able to read the changing demands of the people to meet them.

4.0 MAJOR CHALLENGES / GOOD LESSONS FROM MICRO-CREDIT DELIVERY IN GHANA

a) Challenges

Ghana Microfinance Network (GHAMFIN), an NGO that collates / updates activities of all microfinance institutions, NGOs, groups, individuals etcetera in the country itemizes as below the **major challenges facing micro credit / financial institutions.**

- Low repayment rate by beneficiaries.
- Selection of incompetent / less qualified Board of Director.
- When beneficiaries' solidarity groups are not formed by members themselves but by credit agencies.
- The absence of effective micro credit policy guide in the country.
- High cost of provision of credit especially for small loans.
- Poor physical security on the roads for rural banking.
- Poor road network in most rural settings.
- Ability to acquire / source for enough funding for credit.
- Some interest rates are still too high for the poor.

b) Good Lessons

- Has improved the lives of many.
- Programme engendered the habit of savings among women and many.
- Frequent follow-ups and effective regular monitoring system in place helps in loan recovery.
- Dynamic leadership is central to development of appropriate techniques.

5.0 DEPARTMENT OF COMMUNITY DEVELOPMENT'S (DCD) ROLE IN POVERTY REDUCTION (MICRO-CREDIT DELIVERY)

DCD was established in 1948 with the aim of assisting rural and urban poor communities raise their standard of living. To achieve this goal, five major programmes are undertaken as follows:- Adult education / Literacy, Self-Help / Community Initiated projects, Women's Empowerment Programme, Extension Services and Youth Skills Training.

Women's Empowerment Programme (In Focus)

Women's Empowerment Programme (WEP) is a unit that seeks to improve the socio-economic status of women and their families. Therefore women are mobilized into groups and the groups used as fora for educational purposes, with all groups now involved in income generating activities to earn income to support their families. Often these groups are linked to credit where available. More than 2,500 women's groups have been formed with over 60, active members in the Department.

The unit has effectively implemented credit programmes for WHO, Ministry of Local Government (for AARDO), and the Department's own revolving fund programmes. For the purposes of this paper, I would want to limit myself to the mentioned few.

DCD through the WEP has help implemented the AARDO credit through the Ministry of Local Gov't & Rural Development 1998. It started with two districts in the Central region namely Mfantseman District and Elmina-Edina-Eguafo-Abrem District (KEEA). About 10 groups benefited micro credit and business management training before each disbursement. Beneficiaries were all basically in fish processing and mongering (salting, smoking, frying and retailing). Women were given between GH¢100 - GH¢300 each as credit and they repaid in weekly installments. Over GH¢10,200 has been disbursed to them and recovery rate is encouraging (over 80%).

Recently, the AARDO credit project has extended to three new areas of kente weaving at Bonwere-Ashanti region, Aburi wood-carvers in Eastern region and the third is Bolga Basket Weavers in the Upper West region. ARRDO through the Ministry has disbursed a total of about US\$46,000 to these small-scale entrepreneurs.

Under the WHO/GOG project, promoting health through women's functional literacy, which started in 1998 has helped women in economic activities covering corn milling, farming, petty trading to access loan of between GH¢50 - GH¢100. The interest rate is between 10%- 20% and profits are used as revolving loan that rotates among group members. WHO initially bought some grinding mills for some communities and the proceeds were saved towards a common developmental project in community or used as revolving fund for women to benefit.

Most DCD women's groups contribute their own monies and do revolving loans on their own, often without support from outside.

Experiences and Challenges

- Women have acquired the habit of savings by making compulsory savings weekly after every market.
- Groups are mostly self-sponsored apart from the few mentioned.
- Lack of funds to revolve as loan, so it is not accessible to majority of the poor.
- Community development approach of effective intersectoral collaboration, community involvement, strong and reliable local support has been an asset.
- It is best to do business management training before disbursement and agree with women on repayment terms.
- Most of the poor lack collateral so security is based on relationships.
- Individual private money lenders with high interest rates are their source of credit.
- Rural women are easy to mobilize into groups and with solidarity / joint liability element, repayment is easy.
- Resources /logistics like vehicles for regular monitoring for recovery of loan are not available.

Conclusion

Poverty is a problem that confronts majority of people in Ghana. Gender studies have shown that, women experience greater poverty, have heavier time burdens, lower rates of utilization of productive resources and lower literacy rates. Further poverty is by far highest among food crop farmers who are mostly women in the rural communities.(Dolphyne and Ofei- Aboagye, 2001).

Under Ghana's GPRS, the government has prioritized the provision of microfinance, small loans and related services as an important strategy for pursuing its poverty reduction strategy for job and wealth creation. The government has therefore undertaken both long term and short term programmes to alleviate poverty from various areas of concerns. As such effective micro credit / finance policies and strategies have been identified as a tool for development. Consequently credible / innovative micro credit delivery systems for rural poverty alleviation in Ghana in the area of policies, strategies, activities, challenges and experiences have been shared.

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