

**Microfinance As a Poverty Alleviation Tool for Women in
Ghana's Informal Sector?**

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Abstract:

Poverty alleviation has directly and indirectly played a major role in development theory and projects over time. In recent years, microfinance became a popular poverty alleviation tool, incorporated as part of the Poverty Reduction Strategy Papers (PRSPs) of various developing countries and contributing to the fulfillment of the Millennium Development Goals (MDGs). Microfinance is the delivery of banking services to the poor to help them to start or expand an income-earning activity and thereby escape poverty.

This study aims to explore whether microfinance is an effective poverty alleviation tool for women in Ghana's informal sector. The objectives of this study are to identify the major poverty and development theories and schemes with a particular focus on microfinance, to provide background data on Ghana's development and poverty policies since the 1980's, to examine the challenges facing Ghana's microfinance sector, to use the NGO Sinapi Aba Trust as a case study providing us with an example of a large microfinance institution (MFI) operating in Ghana that has made a moderate impact on poverty alleviation, and to recommend solutions for how microfinance in Ghana could be more effective in poverty alleviation. This paper suggests that microfinance has made only limited progress as a poverty alleviation scheme for women in Ghana's informal sector because despite moderate improvement in building assets and reducing vulnerabilities, microfinance clients have not been lifted out of poverty, but have instead progressed to a more modest form of poverty. Also, microfinance is currently not reaching the poorest segments of the population because of the perceived risk of clients has driven MFIs to operate in areas that are not being served by microfinance.

30 April, 2013

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Acronyms and Abbreviations

AGS	Accelerated Growth Strategy
ASCA	Accumulating Savings and Credit Association
BBG	Barclays Bank of Ghana
BNA	Basic Needs Approach
BOB	Bank of Ghana
CU	Credit Union
CWS	Client Welfare Scheme
ECLA	United Nations Economic Commission for Latin America
ERP	Economic Recovery Program
FNGO	Financial Non-Governmental Organization
GDP	Gross Domestic Product
GLSS	Ghana Living Standards Survey
GOG	Government of Ghana
GPRS I	Ghana Poverty Reduction Strategy
GPRS II	Growth and Poverty Reduction Strategy
ISI	Import Substitution Industrialization
LAS	Latin American Structuralism
GHAMFIN	Ghana Microfinance Institutions Network
GHC	Ghanaian Cedis
GPRP/SIF	Ghana Poverty Reduction Project/Social Investment Fund
HDI	Human Development Index
HPI	Human Poverty Index

HPIC	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
MASLOC	The Microfinance and Small Loans Center
MDGs	Millennium Development Goals
MFI	Microfinance Institution
MNC	Multinational Corporation
NDC	National Democratic Congress
N.P.P	New Patriotic Party
PAMSCAD	Program of Actions to Mitigate the Social Costs of Development
PNDC	Provisional National Defence Council
ODA	Official Development Assistance
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RCB	Rural and Community Bank
ROSCA	Rotating Savings and Credit Association
SAP	Structural Adjustment Program
SAT	Sinapi Aba Trust
SIF	Social Investment Fund
S&L	Savings and Loans Company
SSE	Small Scale Enterprise
WB	World Bank
WDC	Worker Defence Committees

Chapter 1: Introduction

The specific area of development that will be discussed is Ghana, which is a relatively small country located on the West African coastline that has a multitude of diversity of languages, ethnicities and an enduring democratic government. Its population is close to twenty five million, at 24 333 000 in 2010 (UNECA, 2011, 62). Despite high levels of poverty, Ghana is widely considered among the leading countries in Sub-Saharan Africa economically. Ghana's economy is heavily influenced by the informal sector of which 85 percent of Ghana's active population is part of (ICFTU, 2004). Women play a central role in informal sector activities, especially in agriculture where women make up 80% of the subsistence food crop farming (Abeliwine, 2011).

The specific development problematic that I will be looking into for this thesis is the issue of the poverty women face in Ghana's informal sector. The justification for looking into this particular area is that while there are millions of women working in the informal sector in Ghana, many are living in poverty. While the informal sector is significant to both Ghana's economy and to the livelihoods of the local people in the towns and cities in which they are located, informal workers are only able to obtain about US \$2 a day (Asiedu & Agyei-Mensah, 2011: 8). While enough to escape the extreme levels of poverty characterized by the World Bank measurement of \$1 a day, most informal workers are not able to make more than a subsistence standard of living. Being on the edge of subsistence living ensures that acquiring savings is nearly impossible. Without accessible credit and a low level of savings informal sector workers are not able to accumulate capital and develop their microenterprises. It should be noted that formal financial creditors are not inclined to loan to informal workers because of the perception

that informal businesses are not stable or structured enough to acquire a loan. Mainly that this is because most informal borrowers in Ghana do not have standard collateral. Inaccessible credit therefore limits the potential of women in Ghana to become successful entrepreneurs and escape poverty through income earning activities in the informal sector.

Chapter 2 is the literature review, which will explore the theoretical issues and debates around poverty and development, and microfinance as a poverty alleviation tool for women. The literature review begins with debates around: the different approaches to framing the poverty debate, the various poverty alleviation schemes that have been attempted in developing countries, and the issues and debates centred on microfinance.

Chapter 3 presents Ghana's development and poverty alleviation policies from the 1980s-2000s. This will begin with the economic crisis that precipitated the SAP policies in Ghana. This will be followed with the SAPs and their social and economic impacts. This will be followed with data on Ghana's two PRSPs; The GPRS I and GPRS II. The chapter will finish by providing data on Ghana's progress towards the MDGs.

Chapter 4 provides empirical data on Ghana's microfinance sector. The chapter will be start with an overview of Ghana's microfinance sector as a whole. The different types of financial institutions that provide microfinance will be outlined and the role of government and development partners. The chapter will also demonstrate the challenges facing the microfinance sector. A case study of the NGO Sinapi Aba Trust (SAT) will be presented in order to examine the poverty alleviation potential of microfinance for women in Ghana's informal sector.

Chapter 5 is my conclusion and recommendations in regards to my findings. This chapter will synthesis the findings of this thesis. The chapter will also examine in what ways microfinance is useful and not useful for poverty alleviation in Ghana. The chapter will also explore microfinance contribution to poverty and development. The chapter will end with recommendations for the microfinance sector in Ghana to be more effective as a poverty alleviation tool.

The research question being posed explored is whether microfinance been effective in alleviating poverty for women in Ghana's informal sector. Microfinance may provide a solution for impoverished women in the informal sector of Ghana who do not have access to financial services. This does not necessarily mean that microfinance will result in a lift out of poverty or if microfinance reaches the poorest segments of Ghana's population. The argument being put forward is that microfinance has generally not led to a lift out of poverty for microfinance clients in Ghana, or has reached Ghana's most poor.

Chapter 2: Literature Review

In reviewing the literature, there are theoretical issues and debates around poverty and development, and microfinance as a poverty alleviation tool for women. It is important to outline the different approaches to framing the poverty debate that have been used in order to provide a theoretical lens for examining microfinance as a poverty alleviation tool. SAPs are mentioned in order to provide context for the PRSPs, which are the dominant poverty alleviation scheme used by developing countries. Furthermore, it is imperative to look at the various issues and debates centred on microfinance in order to introduce to concepts that will be discussed in further chapters on microfinance as a poverty alleviation tool for women in Ghana.

Poverty and Development

Poverty is central to the study of international development. International development began after the Second World War when the allies, led by the United States, attempted to rebuild wartime economies and create international institutions, which could restore order to world politics (Dodds, 2002: 3). During this process of economic and political reconstruction, the Truman administration took a particular interest in the condition of underdeveloped areas. On 20 January 1949, Truman announced his in point four of his Inaugural Address a plan for the rest of the world based on greater production as the key to prosperity and peace.

We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first

time in history, humanity possesses the knowledge and skill to relieve the suffering of these people. I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life (Public Papers of the Presidents of the United States, 1964: 114-115, as cited in Binns, 2008: 81).

This laid the foundation for a program of active and sometimes overly aggressive intervention in underdeveloped regions aimed bringing about development.

Poverty began to play a prominent role in the international development debate in the 1970s; after World Bank President Robert McNamara gave a famous speech in Nairobi in 1973 at one of the bank's annual meetings (Banjo, Gordon & Riverson, 2012: 1). McNamara recognized that the Bank's concern with economic growth did not necessarily eliminate poverty, and so advocated that poverty should be the key focus of development policy. During the speech in Nairobi, McNamara introduced the term absolute poverty as: "a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victims basic necessities" (Huttlinger, 2003: 3). McNamara announced that there was an estimated 800 million people living in absolute poverty at the time, and placed poverty reduction at the top of the World Bank's Development Agenda (Banjo, Gordon & Riverson, 2012: 1). McNamara's highly visible institutional commitment to poverty reduction influenced the work of all World Bank presidents after him, and a focus on poverty alleviation in the development debate continues on to this day.

Over the past decade, the most important poverty alleviation scheme has been the Poverty Reduction Strategy Paper (PRSP), which is intended to be a practical link with the poverty reduction targets outlined in the Millennium Development Goals (MDGs). The MDGs represent the first global commitment to work towards the eradication of

poverty. The MDGs attempt to address poverty by setting poverty alleviation targets that account for the various aspects to poverty alleviation, such as improvements to education, healthcare, gender relations, and income. Despite some progress, areas such as Sub-Saharan Africa, South Asia, West Asia, Oceania and CIS Asia have more targets that will not be met than will be met given prevailing trends (Rigg, 2008: 33).

Poverty Perspectives

Broadly speaking, poverty is the pronounced deprivation of well-being. Poverty is a concept associated with a variety of economic and social aspects. As well as income, other indicators of poverty include but are not limited to; a lack of access to nutritious food and potable water, constant exposure to a number of diseases and conditions of ill-health that are reflected in statistics of child and material mortality, a lack of educational opportunities or access to educational services, insufficient or poor shelter, and a lack of economic and social security programs (O'Malley & Veltmeyer, 2006, 294). Although there are many theoretical conceptualizations of the poverty discourse, which help to structure the poverty debate, I will discuss three main discourses, which are the income-based approach, the capabilities approach, and the structuralist approach to poverty.

Misturelli and Heffernan (2008: 667) describe the income-based or money metric poverty discourse. The income-based definition of poverty is the condition where individuals lack the financial resources to satisfy their basic needs and/or a minimum standard of living. This is the conventional viewpoint of the Bretton Woods Institutions such as the World Bank and IMF, which links well-being primarily with command over commodities, and views the poor as those who do not enough income or consumption to

meet a minimum threshold (Haughton & Khandker, 2009: 2). This criterion is the theoretical basis for international poverty measures such as the 'poverty line', which separates a population based on levels of consumption. The primary mechanism to alleviate poverty using the money metric approach is through economic growth, which will supposedly have an effect to improve other non-economic dimensions of poverty such as poor health, poor nutrition, and illiteracy. Simple economic measures such as the poverty line have often been criticized for not sufficiently capturing the full extent of poverty. As stated by Haughton and Khandker, the differences between those above and below the poverty line are not considered and all social aspects of poverty are simply ignored (2009: 2). While the income approach is still widely used to illustrate broad macroeconomic realities, it is nearly universally accepted that it is an insufficient benchmark for capturing the full extent of poverty.

The second prominent poverty discourse is the capability approach, which was first developed by the welfare economist Amartya Sen in the 1980s. In contrast to the income approach to poverty, the capabilities approach focuses on what people were able to do instead of what they have. Poverty is what occurs when people have diminished capabilities to lead lives that are deemed valuable (Hicks, 2012: 2). These capabilities include a variety of aspects such as the capability of being healthy, educated or able to be part of a political process. Under the capabilities approach, income is only valuable as a means to increase the capabilities of an individual, to which supports what Amartya Sen defines as Human Development.

The third prominent poverty discourse in international development studies comes from the structuralism perspective. Using the structuralism ideology, O'Malley &

Veltmeyer argue that after over three decades of attempting to alleviate poverty through economic growth, little has been accomplished in the World Bank's so called "war on poverty" in less developed countries (LDCs) (2006: 287). O'Malley & Veltmeyer argue that according to the international development organizations led by the World Bank, economic growth is pro-poor which is facilitated by building a pro-growth institutional environment through securing property rights, creating a stable economic environment, formulating predictable state policies, and creating market-friendly incentives (2006, 293). According to O'Malley & Veltmeyer it might be suggested that it is exactly these orthodox development strategies pushed by the World Bank that have been pursued in this war on poverty have in fact succeeded in preserving and strengthening the underlying system that produces and perpetuates the problem of world poverty (2006: 305).

Competing Approaches to Development Theory: 1950-1990's

Modernization Theory

Modernization Theory was the dominant theory of international development for most of the 1950s and 1960s (Kiely, 2006: 395). Modernization theorists argued that all societies go through similar linear paths of development from a traditional state to a modern state. The end goal of development is to become a modern state that is characterized as a mass consumer society, in which the United States or Western European countries would be the best examples. The basic principles of modernization theory are derived from the 'idea of progress' that can be traced back to the eighteenth-century enlightenment period, when it became apparent that people could change and

development their own societies through advancements in science, technology, and social organization (395).

The most influential modernization theory to emerge in the early 1960's was posited by Walt Rostow in his book *The Stages of Economic Growth: A Non-Communist Manifesto* (Binns, 2002: 77). Rostow outlined a five-stage theory of development, in which nation states meet a number of preconditions in order to progress into the next stage of development. The first stage was called the 'traditionally society', when societies are characterized by pre-Newton science and technology, hierarchical social structures, production and trade based on the barter system (77). The traditional society was analogous with pre-seventeenth century Britain. The second stage was called 'the preconditions for take-off', which was first achieved by Britain sometime between the seventeenth and eighteenth centuries (78). During this stage, economically based elites and more centralized states gradually emerged as a result of improved technology and transport, and increased trade and investment. Economic progress was helped by education, entrepreneurship, and capital mobilizing financial institutions. The third stage of development is the takeoff, which along with the preconditions to takeoff, were considered the most important stages to developing into a modern society (Kiely, 2006: 395). During the take-off stage, the last obstacles to economic growth were removed. The take-off was characterized by rapid economic growth, more sophisticated technology, and considerable investment particularly in the manufacturing industry (Binns, 2002: 78). The share of investment and saving from nations rises to 10 or more percent, resulting in industrialization. Agriculture becomes commercialized as the demand increases as a result of expanding city centers. After a long period of sustained

but fluctuating progress the societies enters the fourth stage of development called the 'drive to maturity,' when the economy is regularly growing, and output is growing faster than increases in population. Investment increases to 10-20 percent of the national economy, which is funnelled into a variety of investment opportunities made possible through improvements in technology. The economy finds its place in the international system, and because of a wide range of produced goods, is less reliant on imports. The final stage is called 'The Age of Mass Consumption' which was analogous with the society in the United States during the 1920s and 1930s (78). This is the end-state of the modern society, which was characterized by a significant proportion of the population being able to consume a wide range of goods and services that transcends basic food, shelter and clothing.

In the late 1960s modernization theory gradually became less influential for a variety of reasons. One of the critiques was that modernization theory failed to see any conflict modern and traditional societies. The assumption was made that greater levels of trading and investment from advanced societies would aid in the development on developing societies. It became apparent however, that Western countries invested and traded much more among themselves in developing countries (Kiely, 2006: 397). Western capitalist companies were more concerned with making safe and profitable investments than becoming the engines that would drive development forward in developing countries. As argued by underdevelopment theorists such as Frank, some countries have become advanced through the exploitation of the Third World nations. The failure of modernization theory to take into account the unequal terms of trade and investment in the international system was one of the most important criticisms, and

provided a core tenant for later theories of underdevelopment such as dependency and world-systems theory (397).

Modernization theory did not mention poverty alleviation as a focus of development. Modernization theorists saw tradition as a structural barrier to economic growth, which would help a society to develop to a modern mass consuming society. Traditional societies faced structural barriers such as poor technology, little trade, investment or entrepreneurial activity. In order to develop, traditional societies were advised to adopt the western value of entrepreneurship in order to begin to address the structural constraints to economic growth and development. Through the formation of a business friendly environment, developing countries could benefit from investment from developed countries. The lack of focus of external structural constraints to development was the primary concern of underdevelopment theorists such as Frank.

Structuralism/Dependency Theory/World Systems Theory

An alternative to modernization called 'Latin American Structuralism' (LAS) or simply 'Structuralism' was developed mainly by members of the staff working in the United Nations Economic Commission for Latin America (ECLA) in the 1950s and 1960s under the leadership of the Argentinian Raul Prebisch (Kay & Gwynne, 2000: 50). Structuralists made a distinction between rich core countries in the global north and poor periphery countries in the global south. Structuralists were highly critical of existing development paradigms, which advocated a development path based on exporting of natural resources and primary commodities to core countries in exchange for manufactured goods (Conway & Heynen, 2008: 92).

The empirical data that supports the structuralist argument is primarily based on the Prebisch-Singer hypothesis formulated by Prebisch in his document *The Economic Development of Latin America and its Principle Problems* (1950) (Dosman, 2006: 471). The Prebisch-Singer hypothesis states that over time the terms of trade for primary commodities deteriorate compared with primary products. Structuralists used the Prebisch-Singer hypothesis to explain how Latin America's reliance on primary exports in exchange for manufactured products was a barrier of development and resulted in poverty. The Prebisch-Singer hypothesis seemed to contradict the prevailing development ideology of comparative advantage that states that developing countries should specialize in exporting their primary resources to the industrial world in exchange for manufactured goods because they hold a comparative advantage in this area (Conway & Heynen, 2008: 93). The global capitalist system was therefore viewed as unequal, in which the industrial core countries were the winners and the agricultural periphery countries were the losers of development.

In order to advance economic development, structuralists argued in favour of inward-focused government intervention-led development policy based largely on the infant industry argument where new manufacturing industries do not have the economies of to compete with established competitors on the world market (Conway & Heynen, 2008: 93). According to Prebisch, the solution was import substitution industrialization (ISI) in order to break away from this dependent relationship on rich core countries for manufactured goods (93). This is done through government intervention by providing subsidies to industries, installing trade barriers such as tariffs and overvaluing the domestic currency, and limiting trade with rich countries. When the infant manufacturing

industries were well established they could reduce trade protectionism and be capable of competing on the world market (93).

Out of the theoretical basis of structuralism, dependency theorists argued against modernization theory for bringing about economic growth. In contrast to structuralism that took a structural-economic perspective, dependency theory adopted a much broader sociological framework, which argued for the need to apply the principles of dependency to the concepts of internal colonialism, surplus labour, and marginalization (Kay, 2011: 39). Dependency theorists such as Paul Baran and Andre Gunder Frank criticized the neoliberal market orientated development strategy as perpetuating the unequal power structures of the global economy (Conway & Heynan, 2008: 93). The main difference between dependency theory and structuralism was that dependency theorists viewed the unequal terms of trade between the core and periphery countries in term of exploitation, allowing the rich capitalist class to extract an economic surplus from the working class in the periphery (Kay, 2011: 40) The marginalization of the periphery resulted in underdevelopment, which led to a deepening of social inequalities worldwide and a growing divide between the wealthy few and the poor producers or working class.

In the 1970's and 1980's various reformulations of dependency led to a new theory for explaining the development and underdevelopment of countries in the global capitalist system called World Systems Theory (WST) (Kay, 2011: 40). Unlike structuralism, WST rejects the statist approach of analysing or generating development by focusing at the level of individual countries, because all countries are ultimately shaped by world system opportunities and constraints (Klak, 2008: 101). According to the principal architect of WST Immanuel Wallerstein, the world has been characterized

by a single global economic system since at least 1450 during the age of colonialism and the international trade that accompanied it. Fundamental to WST is the concept of Kondratieff cycles, which are the alternating economic cycles of high sectoral growth and relatively slow growth in the world capitalist system (102). Each Kondratieff cycle lasts about 50 to 60 years and represents a different stage of global capitalism. Within each Kondratieff cycle, there is an A and B phase that characterizes the reoccurring expansion and contradiction of the world capitalist system. The A-phase of a Kondratieff cycle is characterized by economic expansion and price inflation, fuelled by technological innovations and organized by new institutional rules. This leads to the B-Phase of the cycle, which is characterized by increased competition that leads to profit declines, price deflation, and economic slowdown. During the B-Phase of the Kondratieff cycle, the economic slowdown motivates the rich capitalist class to invest out of established sectors, and regulated environments and current production locations, which begins a new Kondratieff cycle (102).

Another defining feature of WST is through the addition of the semi-periphery category as a geographical component to the world capitalist system. The semi-periphery contains characteristics of both the core and periphery states. Some of the characteristics of the core include: industry, an export-led economy, and a moderate level of prosperity among the population (Klak, 2008: 103). The semi-periphery also contains some weakness comparable with the periphery such as: poverty, a reliance on primary goods, and vulnerability to the economic and political decisions of core states. The periphery state is the most turbulent, in which countries are constantly rising and falling into core or periphery status (103). Although the semi-periphery offers some hope of achieving core

country status, the existing core states are also trying to improve their position relative to other states in the global system, and therefore are attempting to maintain the status quo. The addition of the semi-periphery category helps to explain how countries transition over time from a periphery state to a core state. An example of this transition occurred during China's industrial boom in the 1980's when it transitioned from a periphery to semi-periphery state (104). Now China is rapidly expanding and may transition again to become a core country in the not so distant future.

Although it would be wrong to group structuralism, dependency theory, and world systems theory into one group all of these perspectives view the cause of poverty as the result of the external structural environment. Poverty, according to these theories is the result of the global capitalist system, which is characterized by unequal power relationships in the global capitalist system. To structuralists the solution to structural to break away from the dependent relationship poor countries face is to adopt inward-focused government intervention strategies such as ISI. Over time, as when the infant manufacturing industries grew, they could then compete in the global capitalist market and bring economic growth, which will supposedly prevent widespread poverty from occurring. To dependency theorists, the global capitalist system is characterized by the exploitation of the periphery by a rich capitalist class. This relationship results in underdevelopment, which is characterized by a deepening of inequality between the rich and poor globally. Like dependency theory, world systems theory views poverty as the result of the world capitalist political economy that has a fairly rigid division of labour that has favoured the rich and penalized the poor.

Basic Needs Approach

The Basic Needs (BNA) approach was initiated in the mid-1970s first initiated by the International Labour Organization (ILO), and then by the World Bank under the leadership of Robert McNamara (Stewart, 2006: 14). The basic needs approach came as a response to some of the negative consequences of early statist pro-growth development strategies. While the pro-growth development strategies in developing countries in the 1950s and 1960s had managed to result in more economic growth, industrialization, and some levels of increased social indicators such as improved health and literacy, these benefits were distributed in a highly unequal way throughout the developing countries population (14). The ILO summarized this position: “It has become increasingly evident, particularly from the experience of the developing countries that rapid growth at the national level does not automatically reduce poverty or inequality or produce sufficient productive employment (ILO, 1976: 15). The ILO noted that countries had been following the wrong objective and argued for the need to dethrone GDP (Robertson and Johnston, 1971). Initially it was suggested that employment expansion should be the overriding goal of development, but it was soon recognized that employment should not be considered a valuable on its own, but for the recognition, production, and income that it brings. From this context was where the BNA approach to poverty came in. The BNA argued two essential points. First, the BNA argued that the poor needed more than just income, but essential goods and services that everyone needs in order to lead decent lives (Stewart, 2006: 15). The rationale was that although income was important, other elements such as education, healthcare, and good quality water services depends on public provision rather than income. Second, the simplicity of expressing basic needs in

concrete terms it was believed would be more widely accepted in both developed and undeveloped countries than arguments of injustice of inequality (15).

The BNA approach to poverty is commonly identified as with a particular list of goods and services that should be made available to all. The ILO defines basic needs as “the minimum standard of living, which a society should set for the poorest groups of its people” (ILO, 1976: 7). Although many authors writing on BNA insists that nonmaterial, needs such as employment, participation, and political rights must be included, practical application has generally focused on material concerns. As an approach to poverty, the basic needs approach also tends to take a fairly uniform set of consumption goods and services: as adequate food, shelter, and clothing; and access to essential services such as safe drinking water, sanitation, health, education and transport (Stewart, 2006: 16). The minimum levels of these concerns normally include: enough food to avoid malnutrition, universal access to primary education, universal functional literacy, clean water available to all, universal access to primary healthcare, and reasonable quality of shelter for all.

The BNA began to lose support for a variety of reasons. For the donors such as the World Bank, concerns such as stabilization and adjustment came to dominate the discussions of effective development (Stewart, 2006: 17). In developing countries, the BNA was never implemented with much enthusiasm because it was often viewed as deterrence from industrialization and growth. The BNA also seemed to be an approach that developed countries advocated for developing countries, but would not implement in their own countries (17). Critics also pointed out that the choices of essential goods and services that were used in the approach and the determination of minimum satisfactory levels were arbitrary (17).

Structural Adjustment Programs (SAPs)

One of the main reasons for the growth of the informal sector in developing countries has been the effect that structural adjustment programs (SAPs) have had in undermining the states ability to provide for its citizens. SAPs were first implemented by the Bretton Woods Institutions (World Bank and International Monetary Fund) in the 1970's in response to the global debt crisis occurring at the time (Simon, 2008: 86). The theoretical basis of SAPs was that development occurs through raising the standard of living, usually measured by GNI per capita through increasing economic growth. The general understanding was that by creating economic growth, increased wealth would pay for other societal needs such as healthcare and education. SAPs were based on neoliberal ideology, which advocates closer integration into the world market in order to stimulate economic growth. The conditions on loans required debtor countries to remove trade barriers such as tariffs and subsidies, devalue the country currency, and cut government expenditures (88). Comparative advantage in exports was advocated to maximize efficiency in production and increase wealth.

While SAPs were intended to stimulate economic growth, critics have often pointed to examples when SAPs have actually exasperated poverty conditions. This occurred in 1983 during Ghana's first SAP when government expenditures in education were cut which resulted in an adverse effect on educational attainment for women, forcing many into the informal sector where they often make little more than a subsistence standard of living (Barwa, 1998: 30). There was no prioritization on poverty alleviation until much later in 1999 when the SAP was superseded by the PRSP.

Livelihoods Approach

In order to explore the poverty context to which microfinance interventions operate the livelihoods approach will now be discussed. The livelihoods approach provides a theoretical lens to assess the contributions that microfinance makes to poverty alleviation. In the late 1990's the 'sustainable livelihoods approach', or simply the livelihoods approach was developed in response to the disappointing results of former approaches to alleviate rural poverty, which focused on agricultural growth and regional development (Zoomers, 2008: 147). It had become clear that in spite of a long history of large-scale interventionist approaches to poverty, not much progress had been made in improving the standards of living of rural populations and today many of the poor are regarded as chronically poor. According to the livelihoods perspective the disappointing results of interventionist approaches can largely be attributed to a failure to address the multidisciplinary aspects of poverty, which are not solely economic, but also involve political, cultural, social and ecological aspects as well (148).

The livelihoods approach is a way of understanding the complexities of poverty, and to search for more effective ways to support the rural poor in ways that were meaningful to the daily lives. The framework attempts to be holistic and people-centered by outlining not only what people do to make a living, but also the resources they need to make a sustainable living, the risk factors that must be considered in managing their resources, and the institutional and policy context that can either assist or hinder living conditions (Ellis, 2006: 347). . A sustainable living occurs "when it can cope with and recover from the external stress and shocks and maintain or enhance its capabilities and assets now and in the future" (Bhuiyan, Siwar, Ismail, & Islam, 2012: 328)

According to the livelihoods approach resources are categorized as ‘assets’ or ‘capitals’ and are usually classified as one of five or more different types such as human capital (education, skills and health), physical capital (produced investment goods), financial capital (savings, loans, money access), natural capital (water, trees, land, etc.), and social capital (networks and associations) (Bebbington, 1999: 2039). According to Bebbington (1999), social capital is the most crucial asset because it in particular provides the access to resources that rural people need in order to build sustainable livelihoods (2039). Each of these assets is flexible and can be ‘traded off’ to compensate for a deficiency in one form of capital or another.

It is important to note that assets are important not only for their instrumental function (assisting to make a living), and their emancipatory values (challenging the structures under which one makes a living) but also their hermeneutic value (in making life meaningful) (Bebbington, 1999: 2022). A fundamental point of the livelihood approach is that poverty policy should be concerned with improving the asset status of the poor, or enabling assets that the poor already have to be used more productively for their instrumental, emancipatory and hermeneutic values (Chambers and Conway, 1991: 6). The approach attempts to look positively at what is possible rather to view the poor as passive victims.

The things that the rural poor do in pursuit of a living are referred to as ‘livelihood activities’. The livelihood approach takes into account the fact that since the mid 1990’s increasing numbers of rural people have developed multi-local livelihoods (Zoomers, 2008: 149). This is due to rapid urbanization and improvement in communications and transport technology, which has increased mobility. Poor people often now supplement

their incomes through commuting from the rural countryside to urban centers on a daily basis. Although the rural poor still maintain communications with family in the countryside, they have expanded to larger networks. The livelihoods approach also has helped to illustrate that increasing numbers of poor people in rural areas are diversifying their livelihood activities (149). In many cases the bulk of rural people's income does not come from agriculture, which indicates a diversity of income sources. Diverse livelihoods permit the ability to transfer funds from one livelihood activity to build assets in another form of livelihood activity. Proponents of the livelihoods approach argue that the past first round Poverty Reduction Strategy Papers (PRSPs) displayed little if any awareness of multi-local and cross-sector reality of rural people's livelihood activities (Ellis, 2006: 348). The livelihoods approach emphasizes the need of development planners to connect micro-level understandings of people's livelihoods to macro-level policies that are intended to help poor people construct their own pathways out of poverty. We will not elaborate on all of the specific issues or details of the rural livelihoods approach because it is not the focus of this study, it is mentioned as a theoretical framework because it outlines the five types of capital assets to secure a livelihood, the different values that livelihoods serve, and the external conditions that support improving livelihoods.

Neoliberal Approaches to Poverty as a Development Model

Poverty Reduction Strategy Papers (PRSPs)

Since 1999, SAPs have been replaced with PRSPs, which was an attempt to be a more cooperative and inclusive approach to market-friendly reform (Simon, 2008: 90). This new framework came as a result of the longstanding problem that the policies

supported by concessional lending institutions and development cooperation agencies in the poorest countries were not implemented in sustained ways because of a lack of local commitment (Booth, 2005: 1). PRSPs aim to provide a link between national public actions, donor support, and the development outcomes needed to meet the United Nations Millennium Development Goals (MDGs), which has as its first goal to halve poverty between 1990 and 2015 (IMF, 2005). The IMF outlines five principles of the PRSP, which are that poverty reduction should be: country driven, result orientated, comprehensive, partnership-orientated, and based on a long-term perspective (IMF, 2005). PRSPs should be country driven through focusing country ownership on broad-based participation of civil society. It should be result-orientated by focusing on outcomes that will benefit the poor. It should be comprehensive in reflecting the multidimensional aspect of poverty alleviation. It should be partnership orientated by involving development partners such as government, domestic stakeholders, and external donors. Finally, it should be based on a long-term perspective based on reducing poverty.

In contrast to SAPs, PRSPs must prioritize poverty alleviation and are supposed to be prepared through a wide-ranging and deep process of civil society participation. Critics argue that the extent of participation has been frequently superficial consultation, which has been designed in order to claim compliance and legitimacy (Simon, 2008: 90). A second critique is that the underling conditionality has not changed much since the transition from SAP in which economic growth is prioritized above all else through market friendly reforms. The assumption that neoliberal macroeconomic reform will lead to economic growth as a result of more efficient economic management and political governance has been maintained. A crucial difference between the SAP and the PRSP is

the poverty alleviation dimension involved in the PRSP that supposedly will result when poor people become better integrated into the market. Despite criticisms, improvements have been made to the process since the early 2000s and some assessments have been positive (90).

Jeffrey Sachs Poverty Approach

A neoliberal American economist named Jeffrey Sachs wrote an influential book called *The End of Poverty*. Sachs worked as Director of the United Nations Millennium Project's work on the Millennium Development Goals (MDGs). As a supporter of the pro-poor perspective on poverty, Sachs ideology in *The End of Poverty* follows a neo-liberal way of thinking about poverty and development. Sachs's position is that the world's poor are caught in a poverty trap where poor health, poor education, and poor infrastructure reinforce one another (Easter, 2006: 10).

Sachs makes a distinction between three kinds of poverty; extreme (or absolute) poverty, moderate poverty, and relative poverty (Sachs, 2005: 20). Sachs characterizes extreme poverty much like the ILO's definition for basic needs as people who are: "chronically hungry, unable to access health care, lack the amenities of safe drinking water and sanitation, cannot afford education for some or all of their children, and perhaps lack rudimentary shelter... and basic articles of clothing, such as shoes" (20). Extreme poverty is commonly interpreted statistically as those who live on less than \$1 (PPP) per day. Moderate poverty refers to the condition where basic needs are met, but all income is used for consumption needs, making savings still impossible. This is generally interpreted as those that live on between \$1 and \$2 (PPP) per day. Relative

poverty is defined in relation to having a household income level that is below a certain proportion of average national income. Relative poverty changes depending on the average country income level, which explains why people are considered to be in relative poverty in developed countries, but generally not in extreme or even moderate poverty levels (20). It is the position of Sachs that the extreme poor tend to be stuck in a poverty trap. This is because the extreme poor are unable to accumulate any forms of capital since all income goes towards fulfilling basic needs. According to Sachs, the goal of development should be to end extreme poverty through enabling the poorest of the poor to get the capital required to reach the first rung of the ladder of development, and from there the poor will be enabled to bring themselves out of poverty (244).

Sachs distinguishes between six kinds of capital, which the extreme poor lack in order to get to the first rung of development. The six kinds of capital are: human capital, business capital, infrastructure, natural capital, public institutional capital, and knowledge capital (Sachs, 2005: 244). Capital is accumulated when households are able to save a portion of their income, or pay taxes, which the government uses to pay for public goods. The extreme poor are kept in a poverty trap because they are not able to save income or pay taxes because all of their income goes towards consumption (245).

It is the position of Sachs that the elimination of extreme poverty as mentioned in the first goal of the MDGs, can be eliminated globally by the year 2025 (Sachs, 2005: 266). According to Sachs, the essential problem of poverty is that poor countries are caught into a poverty trap that keeps them from becoming fully integrated into the global economy (56). When capital per person is high enough, the economy becomes productive

enough to meet basic needs. Households will then be able to save for the future, which will put them on a path to sustained economic growth.

Microfinance as a Poverty Alleviation Tool

Microfinance is the main poverty alleviation scheme that will be discussed in this thesis. Mohammad Yunus started the Microfinance poverty alleviation strategy when he created the first microfinance institution called the Grameen Bank in Bangladesh in 1983 (Bateman, 2010: 10). The difference between microfinance and formal banking is that a formal banking system is geared towards providing services to richer urban customers, while microfinance is geared towards the rural poor who are trying to establish a small business in the informal economy (Elahi & Rahman, 2006: 479). Robinson defines microfinance as small-scale financial services, primary credit and savings provided to people who engage in small-scale business activities such as farming and fishing and other small enterprises that produce, repair or sell goods; generally these entrepreneurs generate multiple incomes from renting small portions of their land and renting vehicles, animals, machinery, or tools to local individuals or groups in both rural and urban areas (Robinson, 2001: 9). For the purposes of this study Robinsons definition of microfinance will be used.

Microfinance as a poverty alleviation scheme is based on the neoliberal idea of creating a business friendly environment and putting an emphasis on creating pro-poor economic growth. Microcredit targets the poor who have previously had insufficient access to financial services and credit, since they are in a high-risk category for formal credit institutions (United Nations, 1996). The goal of microfinance is to empower the

poor by providing the credit required to be successful entrepreneurs. Microfinance institutions (MFIs) give out microcredit loans to the poor so that can invest in an income earning activity. As a poverty alleviation scheme, microcredit targets workers in the informal sector. Workers in the informal sector often do not make more than a subsistence standard of living (Asiedu & Agyei-Mensah, 2008: 8). One major cause that has led to an impoverished informal sector is problems in accessing credit. Microfinance has been advocated as a poverty alleviation strategy for the informal poor whereby MFIs issue small loans to expand an income-generating activity, and through accumulating capital and savings, escape poverty.

Despite the potential for poverty alleviation, there are a number of critiques most of which concern the microcredit aspect of microfinance. One of the prominent debates is the extent to which the purpose of microcredit is poverty alleviation or if it the real beneficiaries of microcredit are wealthier financial lenders or multinational corporations (MNCs) who benefit when microenterprises are inserted as part of their supply chains (Bateman, 2010: 125).

While poverty is a multidimensional aspect, income per capita is an important general indicator for standard of living. One issue of contention regarding microfinance as a poverty alleviation scheme has been whether there is empirical merit to microcredit loans raising income levels beyond the extreme or moderate poverty lines. According to Bateman (2011), many of the impact evaluations that have been done to measure the percentage of poor people who have been able to lift themselves out of poverty have been undertaken by MFI's themselves, MFI advocacy groups and international agencies are promoting and funding microfinance (2). Serious debate has resulted by university

researchers on the donor bias and the validity of these impact evaluations. According to many researchers the extent that microfinance has been able to lead to long term income security has been seriously exaggerated. Critics point out that there have been case studies of high percentages of microenterprises failing within the first year. The implications for failed businesses are significant because in conditions of repayment of loans may strip the poor of what little assets they once had (Bateman, 2010: 58).

Another criticism of microfinance is that the loans do you not benefit the poorest segments of the informal sector. Nawaz indicates (2010: 675) that one reason for this has been unwillingness by the microfinance institutions to lend to those who are deemed to likely default on loans. Although in theory most microfinance institutions use the group lending strategy where groups will organize their own personnel as group lenders, in reality it is the financial institutions that ultimately choose whether a borrower will be approved for a microcredit loan. Due to the group responsibility in the repayment of loans, groups may also exclude the very poorest segments of their society due to the risk they will have in defaulting which will impact their capacity for more microcredit loans. In fact, some critics maintain that it is the middle classes who are the least risky and most profitable clients that have benefitted the most from microfinance (Bateman, 2010: 42).

Another point of debate has been whether expanded microenterprises in poor communities can find sufficient demand for their products and services. When Muhammad Yunus founded the Grameen Bank he claimed that limitless self-employment in poverty stricken areas was possible (Yunus, 1989: 156). Critics of microfinance sometimes point at that there is a cap on how much growth is possible in because of a limited demands for the simple products sold in the informal sector (Bateman, 2011: 3).

The implication that has been made is that micro businesses will simply replace other micro businesses with no real increases in income.

Microfinance institutions tend to lend to women more often than men. The original reason for this was because women have tended to be better clients for MFIs. The Grameen Bank initially did not have such a strong emphasis on women when it began business in the 1970s (Wright, 2000: 134). The Grameen Bank shifted their focus to women in the early 1980's when they showed better repayment rates than men. Wright (2000) states poor women have proven to be better at savings and repaying loans because they are inclined to reinvest into the business (134).

Poverty alleviation and women's empowerment have been seen as tied together due to the fact that women experience higher levels of poverty than men, especially in the developing world (Burra et al, 2005: 22). Women are more likely to be marginalized with in terms of formal financial services. Women tend to suffer disproportionately when compared to men in ownership of productive capital such as credit and land (22). Women therefore constitute an overrepresentation of the world's poor. In a 1995 Human development report of the U.N.D.P, it was reported that women make up a 70% of the world's 1.3 billion people living on less than \$1 per day (22). Microfinance institutions tend to target women because this is believed to have a more substantial impact on poverty alleviation.

As well as poverty alleviation for women, microfinance is argued to have an effect on women's empowerment. Kabeer (1998) defines empowerment as the expansion of potential choices available to women so that outcomes reflect the set of choices that women value (85). Pitt, Khanker & Cartwright (2006) argue that women's involvement

in microfinance has a positive effect on empowerment through a greater role in household decision making; gaining more access to financial and economic resources; having improved social networks; having more freedom of movement and increasing their bargaining power within a household (817).

Finally, women are the targets of microcredit because it is believed that this will make a more substantial impact on poverty alleviation. Studies have been conducted which indicate that women are more likely than men to distribute income among their households (Despanda, 2001: 15). Enabling women to access credit results in an increasing share of household budget spent on education, housing, and health.

There are criticisms over the prospect of women's empowerment in microfinance. As time has gone on authors there have been increasing sceptical on the positive impact microfinance can have on women and their households. Mayoux (2002: 72) suggests a few reasons why microfinance may have a limited impact on women's empowerment. The first reason is that many women have limited control over income, and what they earn may substitute for former male household contributions, as men retain more of their earnings for their own use. Second, women often have greater workloads combining both productive and reproductive tasks. Third, where women actively press for change, this may increase tensions in the household and incidence of domestic violence. Fourth women's expenditures may continue to prioritize expenditures for men and male children over female children and themselves. Finally, despite decades of efforts of microfinance institutions women remain marginalized in local and national politics.

Some debate has been made on the appropriateness of microcredit to women specifically as a way to reduce poverty (Bateman, 2011: 3). This is because directly

targeting women, as a means to direct earnings from microfinance into a household will ultimately put the responsibility of repayment on poor women and in doing so risks losing what little capital they once had (3).

Thesis Statement

The argument that will drive this thesis is that, microfinance has made only limited progress as a poverty alleviation scheme for women in Ghana's informal sector because it has not resulted in the take-off out of poverty that is supposed to occur using the neoliberal pro-poor framework. The take-off out of poverty is outlined in Jeffrey Sachs's influential book the *End of Poverty*, which states that once the extreme poor are able to increase their income beyond their needs for survival they will be able to invest in capital and escape the poverty trap. (Sachs, 2005: 244).

In order to support this thesis the empirical evidence will provide data to address two crucial questions. First, if there is an improvement in assets formation as the result of microfinance interventions, has this asset formation led to the poor escaping the poverty trap, or has it instead resulted in a more modest form of poverty? According to Sachs, the poor are unable to accumulate capital because all of their income goes towards meeting the basic needs for survival. If the poor are able to invest in productive capital then they have reached what Sachs refers to as 'the bottom rung of development,' which should result in a take-off out of the poverty trap. This thesis will look to test the validity of this argument in the context of microfinance interventions in Ghana for women in the informal sector.

The extreme poor are those people that Sachs characterizes as: "chronically hungry, unable to access health care, lack the amenities of safe drinking water and

sanitation, cannot afford education for some or all of their children, and perhaps lack rudimentary shelter... and basic articles of clothing, such as shoes” (Sachs, 2005: 20). According to Sachs, both the extreme and moderate poor need to be targeted as the recipients of development planning. Because one of the central critiques of microfinance as a poverty alleviation tool is that microfinance services do not reach the poorest segments of the population, for the purposes of this study it is important to provide empirical data to answer the following question: do microfinance institutions provide microfinance services that reach the poorest segments of society in Ghana, or are the poorest of the poor being excluded as clients? If microfinance institutions do not accept the poorest of the poor as clients, then this would undermine the effectiveness of microfinance as a poverty alleviation tool for extreme poor women in Ghana's informal sector.

Methodology

To examine microfinance as a poverty alleviation tool for women in Ghana's informal sector I used both the qualitative and quantitative source to address the issues and debates presented in my introduction and literature review. The research for this thesis has been used using primarily secondary sources such as scholarly articles, books, impact evaluation reports, and dissertations but also primary sources such as government policy documents and statistics from government agencies.

My first major issue was to examine why and how microfinance has become a poverty alleviation tool in Ghana. This was researched by examining Ghana's development policies and practices since the 1980s, including the SAPs and PRSPs. This

information was important in order to demonstrate that the massive growth of the informal sector in Ghana was due to cuts in social services and welfare, and increased rate of unemployment in the formal sector. After the size of the informal sector had increased, the Ghanaian government began to use microfinance as a pro-poor poverty alleviation tool as part of the PRSP development framework. I predominately found information from various scholars such as Loxely, 1991; Hutchful, 1989 and 2002; Roe and Schneider, 1992; Arthur, 2011; and Whitfield. 2009. Statistical and government policy information was found from Ghana Statistical Services, 2002; UNDP, 2010; and the Social Investment Fund, 2007.

After researching Ghana's development policy since the 1980's, I looked into Ghana's progress towards completely the MDGs. This information was important in order to forecast the poverty situation in Ghana, which helped to illustrate the development problematic that microfinance is intended to address. Sources for this data came primarily from Ghana Statistical Services, 2002; and the UNDP Ghana MDG development report from UNDP, 2010.

Next I looked specifically at the microfinance sector in Ghana. This was done in order to provide information necessary to understand the different methods of accessing financial services in Ghana. This information was imperative in order to demonstrate the problem of inaccessible credit for women working in the informal sector in Ghana. I predominately found information from various scholars such as Asiama & Osei, 2007; Addae-Korankye, 2012; Yeboah, 2010; Martin; 2010; and Gollardo, 2001. Statistical data came primarily from HDR, 2012; ILO 2002; and Ghana Statistical Services, 2000.

Finally, I researched Sinapi Aba trust as a case study of a Microfinance Institution that is presently working in Ghana. This case study was used in order to address the issues and questions presented in my literature review on the success of microfinance as a poverty alleviation tool in the context of the women in Ghana's informal sector. The sources of information for the case study were taken primarily from dissertations such as Yeboah, 2010; and Konadu & Biney-Assan, 2007, as well as a scholarly article from Adjei, Arun, & Hossain, 2009. Statistical data came primarily from the impact evaluation report of SAT by Afrane, 2002 and the official SAT webpage from SAT, 2012. By examining the impact that microfinance has had in impact evaluation reports, government documents, and scholarly articles, the challenges facing Ghana's microfinance sector and some possible recommendations can be made evident.

Chapter 3: Development Policy and Poverty Alleviation in Ghana: 1980s-2000s

This chapter presents Ghana's development and poverty alleviation policies from the 1980s-2000s. The point of this chapter will be to provide context for the massive growth of the informal sector of Ghana that began after the SAPs undermined the states ability to provide for its citizens. This will begin with the economic crisis that precipitated the SAP policies in Ghana. This will be followed with the SAPs and their social and economic impacts. This chapter will also provide empirical data on Ghana's two PRSPs; The GPRS I and GPRS II. This is provided in order to indicate when microfinance became a poverty alleviation tool for workers in the informal sector in Ghana. The chapter will finish by providing data on Ghana's progress towards the MDGs. This will help to illustrate the poverty situation in Ghana, which is the development problematic that microfinance is intended to solve.

Economic Crisis that Precipitated SAP Policies in Ghana

Ghana's economic crisis in 1980-1983 initiated a neoliberal-type development policy framework through the SAPs that have had long lasting effects on Ghana's development policy that continues on to today (Loxely, 1991: 4). Despite the frequent change of government agendas between independence and the beginning of SAP's, neither structuralist nor monetarist reforms had much economic benefit for Ghana. "Economic growth was virtually stagnant from 1970 to 1980 and then fell by 20 percent between 1980 and 1983" (Loxely, 1991: 4). By 1983, Ghana entered an economic crisis characterized by severe shortages of food and foreign exchange. Gross National Product stagnated, barely growing from 5,241 million Ghanaian Cedi's (GHC) in 1975 to 5290

million GHC in 1981; per capita GNP actually dropped from 537 GHC in 1975 to 467 GHC in 1981 (Hutchful, 1989: 100).

The economic crisis affected the living conditions for large sections of the Ghanaian population. In order to adjust for falling wages most workers adjusted by producing more of their food and by taking a second or third job (Loxely, 1991: 12). Women and children in particular moved into petty trading which for women added to heavy domestic duties and perhaps formal work, and for children often resulted in dropping out of school (12). Despite adjustments, overall real income fell and poverty increased. This is demonstrated in the fact that urban employment in establishment with more than 10 employees fell by at least 30,000 to over 450,000 between 1979 and 1983 (13). In rural areas, the real incomes of cocoa farmers, which reduced drastically by as much as 80 percent from 1970 to 1983. In terms of state expenditures, budget cuts had a dismal impact in transportation, infrastructure, health, and education. In the late 1970s, diseases such as yaws and yellow fever, which had been eradicated decades earlier, reappeared in various regions of Ghana. Infant mortality, which had been 80 per thousand in the mid-1970s, had risen to 110-120 per thousand by 1983-1984 (UNICEF, 1986: 12). The child death, measuring those between the ages of one to four, is estimated to have doubled from 15 per thousand in the 1970s to 30 per thousand in 1983-1984 (12).

The underlying causes of the economic crisis can be characterized by internal and external factors. Externally, Ghana was plagued by frequent drought during this period, which hurt their agricultural exports and brought the threat of starvation (Hutchful, 2002, 35). During periods of drought Ghana suffered most when world market prices for cocoa decreased and oil prices increased. By 1982, Ghana experienced a 41 percent reduction in

terms of trade relative to 1971, which was caused primarily by oil price increases, and world cocoa price falls (Loxely, 1991: 9). Internally, government was too slow in responding to the deteriorating terms of trade. This was apparent in the unadjusted official exchange rate in line with its declined price situations due to severe food shortages. This failure to adjust made Ghanaian agricultural exports much too expensive relative to world market prices (10). Inflation also played a significant role in hurting Ghana's agricultural export sector, despite decreasing slightly in the early stages of the Provisional National Defence Council (PNDC) government. This is evident in the fact that despite high nominal producer prices, real producer prices fell drastically by 1983 to less than a third of their 1970 level. Also, the decision-making committee's set up by the PNDC government was increasingly becoming corrupt and more concerned with distributive rather than productive work (Hutchful, 2002: 36). Finally, in many ways the "big push" structuralist policies initiated by Ghana's first government under Kwame Nkrumah caused Ghana's economy to become very fragile through increasing external debt and inflation to levels that were nearly impossible to recover from (Roe & Schneider: 1992: 28). The steady decline of Ghana's economy and living conditions forced the government to reluctantly turn to the IMF and World Bank for assistance in 1983.

The Economic Recovery Program (ERP)

By 1983, Ghana turned to the IMF and World Bank for the implementation of a Structural Adjustment Program (SAP) in April of that year (Hutchful, 2002: 36). The objective of this program was to stabilize and restructure the economy to promote

economic growth. This occurred in two phases, with the first and second phase running from 1983-86 and 1987-89 (Roe & Schneider, 1992: 15). The policy reforms expressed in Ghana's first two economic recovery programs (ERP I and ERP II) should be viewed as an integrated whole because they were both designed to contribute to the preceding economic crisis, which reached its lowest point in 1982.

The government stated the goals of ERP I as follows:

- Arrest and reverse the decline in production, especially in agriculture;
- Control inflation;
- Stimulate exports and curb the consumption of luxury imports;
- Restore overseas confidence in Ghana;
- Rehabilitate the ruined productive and social infrastructure; and
- Mobilize both domestic and foreign resources to restore the living standards of Ghanaians (Government of Ghana, 1987e, p.3, as cited in Loxely, 1991: 15)

The ERP I was launched in 1983 and lasted until 1986. The ERP I was intended primarily as a stabilization package, which focused on reducing government expenditures and creating incentive for investment in the private sector (Monagbay, 1997). These changes successful brought the budget deficit down from 6.3 percent of the GDP in 1982 to 0.1 percent in 1986.

The government stated the goals of ERP II as follows:

- Ensure substantial economic growth at around 5 percent per annum;
- Stimulate the substantial increases in the levels of saving and investment;
- Place the balance of payment on a sounder footing; and
- Improve public sector management (Government of Ghana, 1987e, p.3, as cited in Loxely, 1991: 15)

The second phase lasted between 1987 and 1989 was focused on privatization of state owned enterprises and devaluing the country currency to help boost the export sector (Hutchful 2002: 57). The ERP II was a medium policy framework that aimed at an average annual rate of growth of real GDP by 5%, to lower the average annual rate of

inflation from 25% in 1986 to 8% in 1990, and generate a significant overall balance of payment surpluses (57). This phase was met with mixed results, as privatization was not implemented well; though the devaluation of the country currency helped to greatly reduce the net returns on selling cocoa on the black market (Loxely, 1991: 27).

During this period the Ghana Living Standards Survey (GLSS), conducted in 1988, documented the existence of pervasive poverty despite modest economic growth. In 1987 the PNDC recognized this problem and introduced the Program of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) (Hutchful 2002: 116). In theory, PAMCAD reflected a movement towards a more poverty-sensitive approach to adjustment by the World Bank. The objective of PAMSCAD was to address the needs of vulnerable groups who are in a precarious position due to the adjustment program or due to the earlier period of economic decline. PAMCAD undertook a number of social projects to meet the basic needs poor people such as non-formal education, rudimentary health projects, feeder road construction, and training for the unemployed (Rothchild, 1991: 12). In reality, the level of assistance to vulnerable groups was minimal, and in some cases the donors did not maintain net flows to projects that were not of strategic importance to the donors and the western countries (Seshamani, 1994: 121).

The main elements of Ghana's SAP's were currency devaluation, limited state involvement in the economy, and the retrenchment of government workers" (Arthur, 2011: 721). To promote efficiency some of the state enterprises established under the Nkrumah government to bring about industrial development were privatized. A market determined exchange rate was instituted in September 1986 which had the effect of transferring resource allocation for cocoa exports from planned to market orientated

model. Protectionist trade measures as such quotas, import licenses, and high tariff rates were also abolished under the new trade liberalization policy. “No sales tax was charged on non-traditional products such as fresh tuna, pineapples, yams, cola nuts, and bananas, as well as processed and semi processed products like sawn wood and aluminum products designed for export markets (721). In order to promote private investment, the role of the Workers Defence Committees (WDCs) was narrowed to encourage productivity (Loxley, 1991: 19). Over 300 000 public sector workers were retrenched as part of the SAP in order to reduce government deficits (Arthur, 2011: 727).

The third phase of the SAPs occurred in 1993, called the ERP III. During this stage, the objective of structural adjustment shifted from economic recovery to accelerated growth called the accelerated growth strategy (AGS) (Ayee, 2007: 168). Unlike the policies involved in the ERP I and the ERP II that focused on economic stability, the AGS emphasized sustainable development and poverty reduction through private sector development (Roe & Schneider, 1992: 15; Hutchful, 2002: 57). The AGS aimed at an annual real GDP growth rate of 8%, reduction of the inflation rate of 5% by the year 2000, increases domestic savings from 10% to 21% and in investment from an estimated 19% of GDP in 1993 to 26% by the year 2000 (Hutchful, 2002: 57). “The AGS stressed the strengthening of inter-sectorial linkages (in particular the agro-industry), poverty reduction through labour intensive and high-productivity activities, enhanced access of the poor to social services, further progress in human resource management, and private sector development” (Hutchful, 2002: 57).

Positive Impacts of the SAPs

The SAP's in Ghana brought about economic stability according to some indicators used by the World Bank that had not been achieved since Independence. Ghana's economy grew by six percent a year, official aid from donor countries greatly increased, and Ghana repaid large portions of its foreign debt (Government of Ghana, 2006: 10). The production of Ghana's main export cocoa has risen so that it was 45 percent higher in 1983 than in 1986 (Loxley, 1991: 25). The rate of inflation fell by over 90 percent between 1983 and 1985 (26). Real per capita GDP rose by 6.8 percent in 1984 and by around 2 percent a year from 1985-1987. National Savings rate recovered from almost zero to 6.6 percent in 1986. Gross investment as a percentage of GDP grew from 6.9% in 1984 to over 23% in 2001 (Arthur, 2011: 723). The liberalized investment environment also contributed to an increase in foreign direct investments by Australian, Canadian and South African companies in the mining sector, which in turn increased production (Arthur, 2011: 724). Given these economic accomplishments, the IMF and World Bank described Ghana as an economic miracle and an example of SAP success story. However despite some levels of economic recovery, the implementation of Ghana's SAP and the liberalized economic environment were not without problems.

Negative Impacts of the SAPs

The World Bank and IMF have initially described the economic success of structural adjustment in Ghana as an economic miracle. These successes slowed down by 1993 and inflation steadily increased, which the World Bank attributed to insufficient effort in implementing adjustment prescriptions (Hutchful, 1995a: 407). As well as

slowing economic growth, the ERP's had the effect of increasing cocoa production by concentrating capital expenditures at the expense of other agricultural products. Cocoa production was increased through the concentration capital expenditures, at the expense of other exports (Hutchful, 1995a: 407). This dependency on the cocoa export has been a detrimental limitation of the Ghanaian economy, which was one of the primary concerns that led to Nkrumah's structuralist policies in order to bring about economic autonomy and growth (407). This had the effect of simplifying Ghana's export structure to the extent of making it very vulnerable to fluctuations in the market.

Another economic problem was the growth of imports. Through trade liberalization, import volume has increased by almost 60 percent between 1983 and 1986 (Loxley, 1991: 27). This furthers the concern about trade dependency, and the devaluation of the cedi has made it so wage earning Ghanaians can buy fewer of these imports because wage increases have not kept up with price increases for imports (Adedji, 2001: 3). This is especially significant because food shortages have increased due to a combination of droughts and a concentration of the cocoa cash crop at the expense of other agricultural products for subsistence and on the local market. Ghanaians are forced to buy more expensive food imports with less money to purchase them. Ghana quickly lost its ability to be food self-sufficient and was forced to import more food in order to account for frequent food shortages (Loxely, 1991: 31).

Structural Adjustment generally has had a negative impact on the social sector in Ghana. There were unprecedented cuts in state expenditures on public services and social welfare (Arthur, 2011: 727). The introduction of hospital user fees in 1985 and some user fees for education has reduced access to these services for most people. The

increase of foreign investment in the mining sector has not benefitted local communities located near these mines. It has led to environmental degradation and the relocation of many local residents.

With the reduction in the state's ability to respond to the needs of the population, many Ghanaians have turned to the informal sector. "The informal sector and small-scale sector of Ghana thus became the fastest growing sector in terms of employment creation a 6.5 annum, compared to 1% in the formal sector" (Arthur, 2011: 728). The 2000 government census revealed that the informal economy accounted for the largest proportion of the economically active population, engaging as much as 80.4 percent of the work force (Ghana Statistical Services, 2002). While the SAPs were aimed at helping countries mitigate the economic crisis, they led to an increase of poverty levels that undermined the development process. The impact of the SAPs in increasing the economic activity in the informal has meant that many Ghanaians have been forced into lower paying informal work, because they now lack the opportunities and training required for better paid employment in the formal sector.

The Ghana Poverty Reduction Strategy (GPRS): 2003-2005

By 2003 Poverty Reduction Strategy Papers (PRSPs) replaced SAPs as the economic plan the World Bank and IMF promotes for development in Ghana (Crawford & Abdulai, 2009: 89). Ghana's first PRSP called Ghana's Poverty Reduction Strategy (GPRS I) broadly reflected a policy framework directed towards the attainment of anti-poverty objectives consistent with the Millennium Development Goals (MDGs). The PRSPs are also a requirement to be considered among the Heavily Indebted Poor

Countries (HIPC) group, which provides for debt relief. (Whitfield, 2009: 20). In 2001 with Ghana suffering from rising inflation, currency depreciation, a huge domestic debt, a shortage of aid flows and massive external debt servicing, President Kufuor decided to adopt the preliminary PRSP prescriptions in order to be considered for debt relief, rather than massively cut public spending (20). The government stated that its ability to engage in poverty reduction and economic development would be rendered ineffective given its debt burden (Osei & Quarterly, 2001: 1). The conditions that were required for debt relief from HIPC were: preparation of a full PRSP for at least at least one year, macroeconomic stability, and a number of structures reforms and social measures. These structural reforms included targets in the areas such as: the use of interim debt relief in areas contributing to poverty alleviation, governance issues, decentralization of government functions, liberal reforms in the energy sector, and improved quality and access of education and health (IMF, 2003: 6-8).

Ghana's first PRSP, called the Ghana Poverty Reduction Strategy (GPRS I), was initiated by the NPP government in 2003 and lasted until 2005. The GPRS I aimed to improve the well being of both the national economy and Ghanaians in order to facilitate the transformation of Ghana to a middle-income country by 2015, which hinged on raising per capita income to at least US\$1000 by 2015. (Hutchful, 2002: 57). The government of Ghana declared its goal of achieving middle-income status by 2015 through the GPRS II, hinged on the overall objective of raising per capita income among Ghanaians to at least US\$1000 per capita (Benin & Randriamamonjy, 2007). The final text of the GPRS was for the most part written by the previous National Democratic Congress (NDC) government, so the NPP government set its own medium term policies

as the focus of implementation. The NPP gave the GPRS an emphasis on poverty alleviation through wealth creation, and assisting poor groups to engage in income generating activities. The stated specific medium term policies of GPRS I were as follows:

- macroeconomic stability,
- economic transformation, such as modernizing agriculture and promoting agro-processing,
- strengthening the private sector, such as access to long term credit;
- infrastructure, such as roads and energy; education and skills training; such as building a model senior secondary school in each district;
- health, such as a model health centre in each district and reforming the health payment system,
- and a few measures on the environment, gender, water and sanitation (Whitefield, 2009: 20).

The medium term policies of GPRS I were criticized by donors who did not see these priorities as pro-poor, or did not think they adequately prioritized their priorities Ghana's poverty problem (Whitefield, 2009: 20). In order to increase dialogue regarding policy implementation the Multi-Donor Budget Support (MDBS) was introduced in 2003. Using the MDBS, donors would give budget support and keep an open dialogue for the conditions that must be met for the government to receive direct financing (21). This increased dialogue included twice a year, and a formal annual assessment. By 2004 the government completed the Heavily Indebted Poor Countries Initiative (HPIC) process and also received debt relief from Bretton Woods Institutions in 2006 using the multilateral debt relief initiative. Due to the HPIC initiative Ghana's debt burden decreased consistently, with 20 percent of the debt relief going towards domestic debts. The remaining 80% has gone towards various development initiatives aimed at improving the economic and social conditions of Ghanaians (Government of Ghana, 2007: 86-87).

This was not well received by donors, which is reflected in the Annual Progress Report on the GPRS which states: “increased allocation to social services to provide relief and safety nets to the poor and vulnerable has eroded out resources to the economic service sector such supports wealth creation and sustained poverty reduction” (Government of Ghana, 2005: 21).

One of the main government programmes that set a primary strategy for localized poverty development initiative is the Ghana Poverty Reduction Project/Social Investment Fund (GPRP/SIF) programme. The GPRP/SIF programme was developed originally in 1998 as the result of a problem situation created by the SAPs and PAMSCAD in the 1980’s to provide targeted assistance to the poor (SIF, 2007: viii). It performs its functions through its three components, primarily the (a) Community Outreach and Poverty Monitoring, (b) the Social Investment Fund (SIF), and (c) Project Management and Coordination components. The Social Investment Fund aims to alleviate poverty in Ghana through institutional and capacity building; human development; and targeted pro-poor socioeconomic investment. The SIF supports small-scale enterprises (SSE) and uses microfinance as a poverty alleviation tool to achieve accelerated growth. From 2003 to 2007, SIF distributed \$2.2 million to 32 microfinance institutions in order to be lent to about 14 000 clients of which 80% are women engaged in income generating activities (SIF, 2007: viii). The SIF serves to build capacities of microfinance institutions to enable them to reach out to the rural poor.

Growth and Poverty Reduction Strategy (GPRS II): 2006-2009

After competition of the Poverty Reduction and Growth Facility with the IMF in 2005, the NPP government initially decided not to enter in a new agreement with the IMF (Whitefield, 2009: 24). Having achieved economic stabilization largely through debt relief, President Kufuor began to emphasize infrastructural development in order to prevent bottlenecks that could prevent further economic growth. The infrastructure projects were financed primarily by the international capital market and China, but also through traditional donors and public-private partnerships with foreign companies when possible (24). Government spending was also funded through the issuing of a Eurobond in September 2007, which raised \$750 billion on the international capital market. By 2006, the government's fiscal deficit grew to 7.5 % of GDP from its expansionary policies. The main cause of the deficit was the growing wage bill in public sector (24). The second reason was due to inefficiencies in the energy sector. The supposedly autonomous regulatory body increased electricity prices in 2006, but these increased costs were not passed on to consumers. The government instead opted to subsidize the energy company in order to offset the price increases, which amounted to 50% below the cost of energy production (24).

Rather than respond to inflated salaries in the public sector or reduce subsidies to the energy sector, the government cut fiscal deficits through across the board 30% cuts in budget ceilings for services and non-energy related capital expenditures (Whitefield, 2009: 24). Government increased poverty reduction spending in 2006 and 2007 or around 10.5% of GDP. This came mostly in the form of funding for basic education, health, and rural electrification.

In 2006 the NPP finalized its second PRSP, renamed the ‘Growth and Poverty Reduction Strategy’ (GPRS II), which lasted until 2009. The four pillars of GPRS II are: i) continued macroeconomic stability (e.g. provision of finance and credit to smaller (riskier) enterprises, securing tax revenues and controlling inflation); ii) accelerated private sector led growth (e.g. access to capital, supporting technological innovation and entrepreneurship, promoting gender equality in employment opportunities and provision of necessary infrastructure and services); III) vigorous human resource development (e.g. the quality and access to health and education); and lastly, iv) good governance and civic responsibility) (UNDP, 2010: 3). The GPRS II differed from the GPRS I because there was a changed focus from macroeconomic stability while addressing the poverty reduction objectives prescribed by the MGDs, to promoting economic growth in addition to focusing on the poverty reduction targets set by the MDGs.

Impacts of PRSPs in Ghana

The results of the PRSP programs from 2003-2009 were varied. In the early years Ghana managed to create macroeconomic stability through increase domestic investment and foreign aid flows, though by 2007 these achievements evaporated through excessive government spending (Whitefield, 2009: 28). Fiscal deficits occurred from overspending, increased petrol prices, the energy crisis, and a short fall in the revenue expected from the Africa cup of Nations. The NPP government overshot its 2008 government spending projections by 697%. This was paid for with what was left over from the Eurobonds. By 2009 macroeconomic stability had evaporated.

In terms of achieving an agricultural-led development strategy, the results were

mixed. The NPP government did make some positive contributions to cocoa farmers such as: increasing the producer price for cocoa, beginning a free mass spraying of cocoa farms to control pests and diseases, and improving roads to cocoa growing areas (Whitefield, 2009: 25). In terms of modernizing agriculture the NPP made limited progress. The government imported tractors for selling individually and established farm mechanization centers in 2005, mostly from HPIC funds. The government also began purchasing and distributing processing equipment to support domestic production of agricultural goods. The government did not make progress in other priorities such as: providing irrigation facilities, improving access to inputs for crops and livestock, undertaking reforms to restore degraded land, and improving access and increasing the volume of credit at affordable rates (26).

Progress Towards the Millennium Development Goals (MDGs)

In 2000, Ghana signed on to the United Nations MDGs and these eight goals have been incorporated into recent development plans, as minimum requirements for socio-economic development, including the GPRS I 2003-2005, and GPRS II 2006-2009 (UNDP, 2010: 13). The MDGs represent the main socioeconomic framework to assess the impact of PRSP II in Ghana. The performance of Ghana to meet these requirements varies depending on the goal. The eight-millennium development goals in order are:

Eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, Malaria, and other diseases, ensure environmental sustainability, develop global partnerships. (UNDP, 2010: v)

Ghana has done relatively well in areas of poverty reduction, boosting school enrolment rates and promoting gender equality. The first MDG goal is reducing extreme poverty and hunger, which has three targets that are:

- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day,
- Achieve full and productive employment for all including women and young people,
- Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

(UNDP, 2008)

Ghana is largely on track to meet most of the targets to this goal by 2015. The proportion of people whose income is less than one dollar a day has fallen from 36% in 1991-1992 to 18% in 2005-2006 (UNDP, 2010: 9). The overall poverty rate has declined from 51.7 in 1991-1992 to 28.5 in 2005-2006. This national decrease in poverty indicators can be correlated with GDP growth rates at 5.1% in 2000 to 2006, and averaging 6.8% between 2007 and 2008.

In terms of challenges, these improvements in national poverty levels in terms of income have not corresponded with equal improvement in human development indicators as Ghana continues to face challenges in areas of health and education. In addition, regional, occupational, and gender disparities exist. The Greater Accra and Upper West regions of Ghana have experienced a worsening trend of poverty (UNDP, 2010: 10). The proportion of rural population living below the poverty line has declined substantially. Food crop farmers remain the poorest occupational group, and the situation of women has

not changed substantially (10). Included in Figure 1 below is a map that illustrates the incidence of poverty in Ghana.

Figure 1: Incidence of Poverty in Ghana, 1999^{xv}

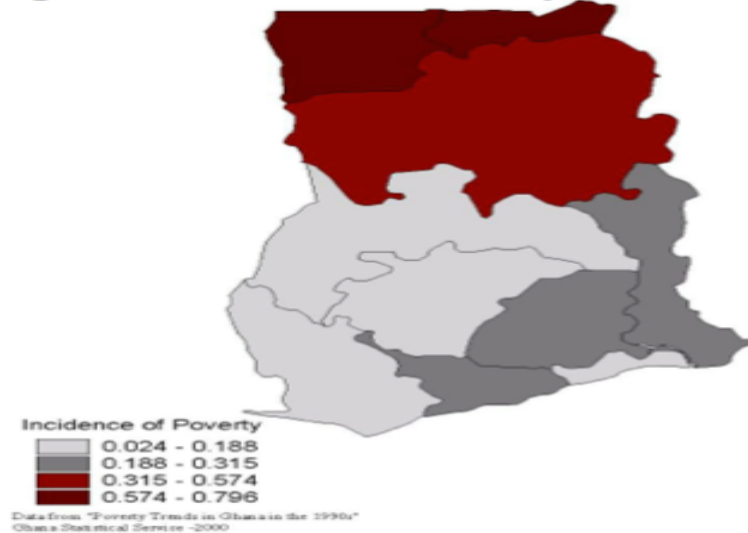


Figure 1. Incidence in Ghana 1999. *Note.* Adapted from “Poverty Capstone: Microfinance in Rural Ghana,” by E. Martin, 2009, p. 6.

In terms of hunger, Ghana is generally secure when considering production and availability for consumption. Total domestic production of major staples have increased from 21 044 000 metric tons (mt) in 2006 to 24 097 000 mt in 2008 (UNDP, 2010: 14). Availability has also increased as evident in the increase of 8.44% or another 188 food access points between 2007 and 2008. Improvements have also been made in the decline of malnutrition, shown in the decline from 27.4% in 1993 to 13.9% in 2008 in underweight children under five years old (14).

In terms of challenges, the proportion of children aged 0-35 months, suffering from stunting has actually increased from 26% in 1993 to 28% in 2008 (UNDP, 2010: 15). The proportion of children with stunted growth were much higher than the national average in the Eastern, Upper East, and Northern regions estimated to be at 38%, 36%,

and 32 & respectively in 2008. The proportion of children who suffer from wasting is highest in the three Northern Regions.

Available data indicates that Ghana is on track to meeting MDG 2 of achieving universal primary education and MDG 3 of promoting gender equality and empowering women (UNDP, 2010: 5). While Ghana has done well to boost over overall primary education attendance, girls are much more likely to drop out of primary or junior high school than boys. This is evident in Ghana's survival rate, which measures the proportion of students who stay and complete school after enrolment (21). While Ghana's survival rate for boys in primary school has increased from 85.1% in 2003-2004 to 88.9% in 2007-2008, it has increased from 81.1% to only 82.4% among girls over the same period. While the survival rate among boys in junior high school declined from 88% in 2003-2004 to 72.4% in 2007-2008, it declined much more in girls from 83.7% in 2003-2004 to 62.9% in 2007-2008 (21).

Ghana has performed much worse in MDGs 4 and 5, which are: reducing child mortality rates for children under 5, and improving maternal health. In terms of reducing child mortality, Ghana remains off track to meet a two-thirds reduction in the under five mortality rate or a reduction to 53 per 1000 births (UNDP, 2010: 29). The under five-mortality rate has been estimated to be around 111 per 1000 births. Like improving malnutrition, the education of mothers has been shown to lower child mortality rates. It has been estimated that for each year of school that a girl undertakes leads to a 10% reduction of under-5 mortality rates (Konadu-Agyemang and Shabaya, 2004: 398). This reduction is the result of a greater understanding of health, sanitation and nutrition.

Ghana is also off track to reduce maternal mortality ratio by two thirds or 185 per 100 000 births. The maternal mortality ratio increased substantially from 197 per 100 000 births in 2006 to 580 per 100 000 birth in 2007 (GSS, 2009: 37; Government of Ghana, 2011: 23). It has been estimated that the maternal mortality ratio will have a slow decline to 451 per 100 000 births in 2008. Given current trends Ghana is forecasted to reduce maternal mortality to 340 per 100 000 by 2015 (UNDP, 2010: 33).

MDG 6 on reducing the spread of HIV/AIDS and other major diseases will potentially be met by 2015 (UNDP, 2010: 38). The HIV prevalence rate has slowed down after peaking 3.6% in 2003. Since then, the HIV prevalence rate decreased to 2.2% in 2008, before rising again to 2.9% in 2009. In order to meet the MDG target of halting the spread of HIV/AIDS Ghana will have to sustain a general decreasing trend. Women suffer the most from HIV/AIDS and amount to 147, 958 of the total 250, 829 of the total people infected. Progress has been made in halting the spread of Malaria through the issuing of insecticide treated nets (ITNs). The proportion of children under five years sleeping under ITNs increased from 3.5% in 2002 to 55.3% in 2007 (UNDP, 2010: 41).

MDG 7 is on ensuring environmental sustainability, which will likely only partially be met by 2015 (UNDP, 2010: 43). While Ghana has made great strides in halving the proportion of people with access to safe water, little progress has been made in some of the other objectives. Specifically, challenges exist in achieving the targets of reversing the loss of environmental resources, reducing the proportion of people without access to improved sanitation, and achieving improvement in the lives of people living in slum areas.

MDG 8 concerns the 0.7% target for aid from developed countries. This target has thus far not been reached. In real terms, ODA inflows in Ghana stagnated at about 8.7% of GDP between 2002 and 2008, after a rise from 6% of GDP in 1999 to 15% of GDP in 2001 (UNDP, 2010: 8). The negative impact of the domestic energy crisis in 2006, as well as the global financial crisis has begun to show in Ghana's levels of public debt. Public debt has increased as a percentage of GDP from 41.4% in 2006 to 55.2% in 2008, which has been deemed unsustainable (8).

In conclusion, since the 1980's Ghana has went through a series of changes in development policy and practise, which began with the three ERPs between 1983-1993, and the GPRS I between 2003-2005, and GPRS II between 2006-2009. Ghana's ERPs had a wide-ranging effect in Ghana in the social and economic domains. One of the most significant impacts that the ERPs have had in Ghana has been the massive growth of the informal sector, which resulted from the diminished ability of the state to provide services to benefit its citizens. Unemployment in the formal sector has also risen, which has forced people to diversify their livelihood strategies through working in the informal sector. During Ghana's two PRSPs, the GPRS I and GPRS II, microfinance became a poverty alleviation a tool. The PRSPs were intended to meet the MDGs, which are minimum requirements for socioeconomic development. Ghana is currently on track to meet the first MDG that is to reduce extreme poverty and hunger. Unfortunately poverty remains a significant problem for women and people living in Ghana's three Northern Regions.

Chapter 4: Microfinance as a Poverty Alleviation Tool in Ghana

This chapter provides empirical data on Ghana's microfinance sector. The chapter begins with an overview of Ghana's microfinance sector as a whole. The different types of financial institutions that provide microfinance will be outlined and the role of government and development partners. The chapter will also demonstrate the challenges facing the microfinance sector. Since there is a lack of aggregated national data on poverty indicators as a result of microfinance interventions a case study is used. The case study is of Sinapi Aba Trust (SAT) which has been chosen because it is Ghana's largest financial non-governmental organization (FNGO) in terms of size, covering all ten regions in Ghana and serving over 50 000 clients (Afrane, 2002: 6). SAT also focuses on providing microfinance services for women, who constitute 92 percent of the organization's client base (6). However, since the SAT is only one of many FNGOs operating in Ghana, it is important to note that the effect that microfinance has had on poverty alleviation may be different when examining other MFIs due to the varying degree of objectives and resources.

An Overview of Microfinance in Ghana

Ghana is a relatively small country located on the West African coastline that is characterized by a diversity of languages, ethnicities and an enduring democratic government. Its population was close to twenty five million, at 24 333 000 in 2010 (UNECA, 2011: 62). Ghana's economy is primarily agricultural with over 60% of its population engaging in subsistence agriculture (Lartey, 2011). Despite being considered among the leading countries in Sub-Saharan Africa economically, poverty in Ghana is

widespread with 28.6 percent of its population living on less than US \$1.25 per day and a GDP per capita of US \$1652 (HDR, 2012: 160, 164). Women in Ghana are more susceptible to poverty due to their limited human capital attainments compared to men. The literacy rate for women is 60.4% compared to 72.8% for men (UNECA, 2011: 34). Statistics indicate that the poorest segment of Ghana's population is the food crop-farmers, which women make up 80% of the workforce (Abeliwine, 2011).

For Ghana, microfinance has been formally introduced as one of the interventions to support the fulfillment of the MDGs (Asiama, & Osei, 2007: 8). As stated by former U.N secretary Kofi Annan during the launch of the International Year of Microcredit in 2003:

Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. (Microcredit to Serve the Millennium Development Goals: 2011)

Microfinance has been argued to be an effective poverty alleviation tool for the workers in the informal sector, and for women in particular. The 'informal sector' refers to any business that is not formally registered with a national (or local government) or protected by any legal or regulatory framework and is subject to high degrees of vulnerability (ILO, 2002). Recently the term 'informal sector' has been replaced with 'informal economy and come to be widely used to encompass the expanding and increasingly diverse group of workers in both rural and urban areas that operate informally (ILO, 2002).

Ghana's informal sector employs the majority of its work force. According to the 2000 Population and Housing Census, 80% of the working class in Ghana is employed in

the private informal sector (Addae-Korankye, 2012: 136). Unfortunately the commercial banking system, which is dominated by only a few banks, only reaches 5-6 percent of Ghana's population because most people cannot afford the high minimum deposits required (136). Workers in the informal sector therefore often suffer from a lack of accessible credit, which limits their access to productive capital and growth for this crucial aspect of Ghana's economy. The Ghana Living Standards Survey in 1998-1999 found that the proportions of people obtaining credit twelve months before the survey are: Northern Region (3.5%), Upper West Region (0.9%), and Upper East Region (1.3%), whereas the Ashanti and Western regions have rates of 22.3% and 15.5 % respectively (Martin, 2009: 9). Not surprisingly, the Northern Region, Upper West Region and Upper East Region are also the poorest regions in Ghana at 88 per cent, 84 per cent and 69 percent respectively (Ghana Statistical Service, 2000).

Microfinance is not a new concept in Ghana. Traditionally, Ghanaians have saved with and taken loans from individuals and groups within the context of self-help and to support business ventures (Addae-Korankye, 2012: 135). The first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries, and *susu* has been a traditional form of saving in Ghana for many years (135). Despite these early beginnings, it wasn't until the 1990's that Ghana formally began implementing microfinance as a poverty alleviation tool.

The Different Types of Microfinance Institutions

The term microfinance is used to designate the provision of financial (and non-financial) services to the poor that do not have access to traditional financial resources

(Yeboah, 2010: 372). The three broad types of financial institutions that provide microfinance services to the rural and urban poor in Ghana include: (1) formal suppliers of microfinance (i.e.) rural and community banks (RCBs), savings and loans companies (S&Ls) and commercial banks; (2) semi-formal suppliers of microfinance (i.e. credit unions, financial non-governmental organizations (FNGOs), and cooperatives; (3) Informal suppliers of microfinance (e.g. susu collectors and clubs, rotating and accumulated savings and credit associations (ROSCAs and ASCAs), moneylenders and other individuals (Asiama, & Osei, 2007: 3). The Bank of Ghana (BOG) is not classified in any of these three categories because its primary role as a central bank has been to regulate and supervise the commercial and non-bank financial institutions and also advise the government in policy formulation (Yeboah, 2010: 131). Table 1 (see below) outlines the different categories of financial institutions in Ghana, with definitions and principal clients.

Tier	Definition	Institutions	Principal Clients
Formal banks	} Licensed by } central bank	Commercial & development banks	Large businesses Government
Specialized non-bank financial institutions (NBFIs)		Rural banks Post Bank Savings & loan companies Deposit-taking microfinance banks	Large rural enterprises Salaried workers Small & medium enterprises
Semi-formal	Legally registered, but not licensed as financial institution by central bank	Credit unions Microfinance NGOs	Microenterprises Entrepreneurial poor
Informal	Not legally registered at national level (though may belong to a registered association)	Savings (susu) collectors Savings & credit associations, susu groups Moneylenders	Self-employed Poor

Table 1. Segments of Financial Systems by Degree of Formality

Note. Adapted from “Poverty Capstone: Microfinance in Rural Ghana,” by E. Martin, 2009, p. 11.

The financial institutions in Ghana in the formal sector include: the commercial banks, the RBCs and the S&Ls. The commercial banking system in Ghana is dominated only a few major banks, and reaches about a very small proportion of the Ghana population, especially in agricultural areas. Most households are excluded from the commercial banking system because they cannot afford the amount of mandatory deposits required (Martin, 2010: 11). Since the majority of Ghanaians are excluded from commercial sector, the RCBs and S&Ls play a very important role in providing financial services especially in rural areas.

The rural and community banks (RCBs) are the most significant players in microfinance in the formal sector in Ghana. The RBCs were first established in 1976 in Ghana to provide savings services in rural areas that were not being served by commercial or development banks (Yeboah, 2010: 133). Members of the community through the purchase of shares own the RCBs. RCBs are the most significant financial institutions in terms of geographical coverage, depth of outreach and number of products. In 2007, there were 129 RCBs in Ghana and they had a total of about 1.2 million depositors and 150000 borrowers (133). Most RCBs regularly run microfinance interventions, usually with assistance from donors. RCB loans are generally short in term length (4-6 months) with weekly repayment around \$50-75, with a compulsory saving of 20% that is retained as security against the loan (Martin, 2010: 12). In spite of the fact that RCBs operate throughout Ghana, the three Northern regions, which are considered the poorest in Ghana, are the least served by the RCBs. There are a total of 14 RCBs in the three Northern Regions compared to 115 RCBs in Ghana's seven other regions (12). The RCBs have been increasingly moving to urban sectors in order to pursue profit. This

practice has been widespread enough to prompt the BOG in 1998 to enforce the rule of limiting the operations to specific locations (12).

The S&L companies are privately owned companies that mobilize savings from households and small businesses, and lend to micro, small and medium sized enterprises (Martin: 2010: 14). Unlike the RCBs, which are owned by community members, private individual parties own S&Ls. In 2008 the BOG registered 15 S&L companies, all of which were concentrated in Ghana's two largest cities, Kumasi and Accra (Yeboah, 2010: 134).

Financial institutions in the semi-formal sector are registered as legal entities but are not licensed by the BOG. Semi-formal institutions include financial NGOs (FNGOs) and credit unions. FNGOs are non-member, not for profit organizations that provide financial services for poor citizens. The majority of FNGOs belong to an umbrella organization called the Ghana Microfinance Institutions Network (GHAMFIN), which attempts to strengthen the capacity of MFIs through training; sensitize government and share holders on best practices and issues, as well as encourage all MFIs to join the network and develop industry performance benchmarks, indicators, and standards (GHAMFIN, n.d.). FNGOs are not permitted by law to organize voluntary savings accounts for the public, unless they become formal financial institutions that are licensed by the Bank of Ghana (Yeboah, 2010: 137). Non-voluntary savings are permitted as security against further loans, which the NGOs return to borrowers after completion of the loan cycle or after withdrawal (Gollardo, 2001: 27). The poverty alleviation emphasis of the FNGOs means that they are particularly adept at focusing microfinance efforts to the poor. FNGOs have played an important role of getting financial services to the

Northern Regions of Ghana, where commercial banks, RCBs, and S&Ls are relatively scarce (135).

A second type of semi-formal institution is Credit Unions (C.U). C.U.s are registered by the Department of Cooperatives as thrift societies that are legally bound to accept deposits and give loans to their members only (Yeboah, 2010: 135). C.U.s average about 400-500 members and their average loan size is \$153 (Martin: 2010: 14). The Microfinance and Small Loans Centre (MASLOC) are currently experimenting with the CUs for reaching the poor using microfinance practices (Yeboah, 2010: 135).

The informal sector financial institutions are not licensed or regulated by financial regulators and their transactions hardly require documentation (Yeboah, 2010: 137). These informal suppliers of financial services include susu collectors and clubs (rotating savings and credit associations), traders, moneylenders, and family members.

Many Ghanaians in the informal sector rely on traditional practises of susu. Susu has been adopted by many formal financial institutions in the provision of credit and savings to micro-entrepreneurs (Egyir, 2008: 2). Susu is the practise of accumulating funds through regular daily or weekly payments that are returned at the end of a specified period less a small fee. The Rotating Savings and Credit Associations (ROSCAs) are also known as susu groups. Members in ROSCAs contribute fixed amounts of cash to a common pool at regular time periods, which could be daily, weekly or monthly depending on patterns of income (Yeboah, 2010: 142). Members take turns accessing the joint fund until everyone is served. The Accumulating Savings and Credit Associations (ASCAs) operate very much like the ROSCAs with the main difference being that ASCAs permit borrowing from both members and non-members at high interest rates to

increase accumulated savings among the members of the ASCA (142). ASCA are slightly more complex than ROSCAs because some amount of record keeping is needed to keep track of payments on loans and borrowing transactions (142).

Moneylenders are another source of loans for members of Ghana's informal sector who are excluded from commercial banking services (Asiama & Osei, 2007: 3). In Ghana, moneylenders are usually wealthy cocoa farmers, traders, or government employees who have gained access to funds from the commercial banks. Despite the Moneylenders Ordinance of 1940 and 1947 that provides a legal framework for operations, most moneylenders in Ghana continue to be unregulated (Yeboah, 2010: 139). Moneylenders are vilified because they charge high interest rates averaging 25-30% for the average three-month loan (139). Despite high interest rates, moneylenders are an appealing source of loans for members of Ghana's informal sector because of the quickness and flexibility of transactions.

Beside the susu groups and moneylenders, loans from relatives, friends, and other acquaintances constitute the rest of the sources of credit for the informal poor (Asiama & Osei, 2007: 3). It is important to note that it is the rural areas of Ghana that have the most difficulty accessing financial services. To give an illustration of the most significant MFIs in Ghana, Table 2 provides data on the outreach of each type of MFI in rural Ghana.

Table 2. Outreach of Rural and Microfinance Institutions by Type

Institution	Depositors		Borrowers	
	2003	2004	2003	2004
Savings & Loans (10)	194,904	243,888	19,454	44,651 (est)
Credit Unions (240)	118,288	160,459	75,869	83,804
Rural & Community Banks (115)	1,202,416	1,509,413	183,368	221,818
NGOs (29)	36,729	87,423	82,143	107,093
Susu Collectors (913 registered)	249,177	257,609	n.a.	n.a.
TOTAL (All RMFIs)	1,838,243	2,258,792	360,834	457,366

Note. Adapted from “Poverty Capstone: Microfinance in Rural Ghana,” by E. Martin, 2009, p. 11.

The Role of the Government and Development Partners in Microfinance

The government of Ghana through its agencies is very influential in the development of the microfinance industry. The GPRS I and GPRS II have formally made poverty alleviation through microfinance a development focus of Ghana’s government (Adjei, Arun, & Hossain, 2009: 4). The government of Ghana has over the years been a provider of microfinance services and has been a regulator of the microfinance industry. The central agencies and organizations that support microfinance in Ghana include the Ministry of Finance, the BOG, and the MASLOC (Government of Ghana, 2008: 18).

MASLOC in particular has played an influential role in the microfinance industry in Ghana. Established to 2004, MASLOC performs two basic functions. MASLOC is responsible for managing and distributing government and development partner funds for microfinance activities (Akinlawon et al, 2010: 3). MASLOC is also responsible for facilitating, the emergence and growth of sustainable decentralized microfinance activities (3). Of these two functions MASLOC has proved to be more focused on

distributing funds rather than promoting decentralization. In addition to MASLOC, the GHAMFIN is an association of MFIs, which aims to support and coordinate the emergence of a decentralized and sustainable microfinance industry (GHAMFIN, n.d.).

In addition to government agencies a number of development agencies support the microfinance sector in Ghana through provision of funding. These include the UNDP microfinance project, the U.K Department for International Development (DFID), and the Canadian International Development Agency (CIDA) (Yeboah, 2010: 144).

How the Financial Regulatory Framework Affects Microfinance

The financial regulatory framework in Ghana has affected microfinance in a number of ways. The government of Ghana gives tax exemptions to RCBs and CU as an incentive for pursuing microfinance institutions (Gallardo, 2001: 12). This has also had the effect of encouraging FNGOs to become licensed financial institutions in order to access government subsidies. The formalization of FNGOs also allows these MFIs to mobilize savings to support microfinance poverty alleviation efforts. Second, close collaboration with advocacy groups' institutions such as GHAMFIN, BOG and the ministry of finance has resulted in better understanding of group guarantees as acceptable collateral in microfinance loans (Gallardo, 2002: 14). Third, in order to promote microfinance, the BOG made adjustments for RCBs and S&Ls by reducing the amount of money that must be held compared to the amount of microcredit loans given out (18).

Challenges Facing the Microfinance Sector in Ghana

One issue facing the microfinance sector is the establishment of a government-

sponsored and supported apex institution for rural banks (Gallardo, 2002: 13). The risk here is that government supported apex organizations pose a risk of distorting the allocation of resources in the microfinance industry with other private MFIs because of access to subsidized resources, which undermines the development of genuine sustainable microfinance institutions.

In general, Ghana's financial institutions continue to offer only a narrow range of clients and few have linkages with each other (Gallardo, 2002: 15). This leaves large portions of the public, particularly microenterprises and small businesses with no access to credit and secure savings options. For example, Ghana's Commercial Bank, with 96 of its 134 branches in rural areas offers nothing but check-clearing relationship with neighborhood banks (15). MFIs that do provide microfinance services to the poor suffer from a lack of adequate methods for classifying various poverty levels among clients to improve understanding of the type of support that is appropriate among groups (Asiama, & Osei, 2007: 8). Microfinance is intended for poor people who do not have access to traditional sources of financial services but in most cases the interest charged by the microfinance institutions are higher than the formal banking institutions due to increased risk of defaulting on microfinance loans (Government of Ghana, 2008: 21)

Case Study of Sinapi Aba Trust (SAT)

Ghana has a great number of microfinance providers that vary in size and objectives. Since FNGOs tend to have a greater focus on poverty alleviation than other MFIs, they provide a better case for examining the possible impact of poverty alleviation for women in Ghana. In attempting to answer my research question, I shall use the

Sinapi Aba Trust (SAT) as a case study. SAT is chosen because it is Ghana's largest FNGO in terms of size, covering all ten regions in Ghana and serving over 50 000 clients (Afrane, 2002: 6). SAT also focuses on providing microfinance services for women, who constitute 92 percent of the organization's client base (6). However, since the SAT is only one of many FNGOs operating in Ghana, it is important to note that the effect that microfinance has had on poverty alleviation may be different when examining other MFIs due to the varying degree of objectives and resources.

An Overview of SAT

SAT is an autonomous NGO established in 1994 with microfinance delivery as their core activity (SAT, 2012). The mission of SAT is to serve as the biblical "mustard seed," through which opportunities for enterprise and income generation are provided to the economically disadvantaged" (SAT, 2012). Potential clients normally receive training at the branch prior to receiving a loan and also periodically provided education and other training to their users. They are mainly women who are working in the informal sector, primarily as micro-entrepreneurs, the majority of which are not able to receive traditional forms of credit due to the perceived risks posed by this group of people and the lack of collateral to secure credit (Adjei, Arun, & Hossain, 2009: 6). SAT is one of the few MFIs in Ghana, which has nationwide coverage, and has witnessed great expansion over the years. SAT is a financially sustainable MFI, which Table 3 outlines in some of the key performance indicators of SAT in 2007.

Table 3: Key performance indicators of SAT

Indicator	2002	2003	2004	2005	2006
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Operational sustainability	140%	126%	94%	145%	117%
Financial sustainability	104%	94%	82%	127%	103%
Arrears Rate>30 days	3.9%	3.0%	0.9%	1.2%	1.0%
Portfolio at risk>30 days	8.6%	5.2%	1.3%	1.8%	1.5%
Cost per cedi lent	0.18%	0.17%	0.30%	0.13%	0.15%
Number of clients	26,615	41,803	51,393	34,632	51,686
Percentage of women	93.50	92.02	85.00	95.00	92.00

Note. Key Performance Indicators of SAT. Adapted from “The Role of Microfinance in Asset-Building and Poverty Reduction: The Case of Sinapi Aba Trust,” by J.K. Adjei, T. Arun, & F. Hossain, 2002, *Brooks World Poverty Institute*, p.6.

Products and Services of SAT

SAT offers a number of financial and non-financial products and services. SATs financial products are in microcredit, microsavings, and microinsurance (which is called the client-welfare scheme). In terms of microcredit, SAT employs three main methodologies for delivering financial services, which are: individual lending, trust bank lending, and solidarity lending.

The individual lending method operates in a similar way to commercial banks. The individual borrower has to go through some business training before accessing a loan, and is required to present some form of collateral guarantor or property (Yeboah, 2010: 157). The sizes of the loans are usually larger than those given to poor clients that average around 200 to 10,000 USD payable to a maximum period of 10 months.

SAT also adopts a group-based lending strategy called Trust Banks, which is designed for borrowers who are unable to access credit through traditional sources (Adjei, Arun, & Hossain, 2009: 6). Groups of poor and economically active persons apply for credit and share in the liability of repayment. Between 20 and 30 members form a group called a trust bank. The group is then further divided into smaller groups of between 5

and 7 members. Conditions and procedures for credit acquisition are more simplified and basically include a regular transfer of payments from the borrowers microenterprise, and attendance of the SAT-organized business orientation and training programme. The business-training program includes information on credit management, basic accounting principles and skills, business records keeping, good customer care, entrepreneurial skills leadership, and health training (Konadu & Biney-Assan, 2007: 28). Individuals are offered variable microloans depending on their circumstances but share in the responsibly in repayment.

The solidarity and trust group method is used as the next progressive step after the use of the trust bank lending method (Yeboah, 2010: 158). This group method works in a similar way to the trust bank method, but the groups are smaller (average 5 members), and the loans are larger and employ more flexible conditions for accessing loans. Using the solidarity and trust method, a member from the trust bank should have gone through four cycles and demonstrated business growth (158). Average loan sizes range from 100 USD to 2000 USD. For both the Trust Bank and Solidarity Groups, 10% of loans are deducted as compulsory savings, 2% is channelled into the client welfare scheme (CWS), and 3% is charged as a processing fee (158). The nominal interest rate for Trust Bank and Solidarity Group loans is 35%.

An important financial service that SAT offers is its client welfare scheme (CWS). The CWS was introduced by SAT as form of insurance to protect against default risk as the result of the death or serious illness of a participant with an outstanding loan (Adjei, Arun, & Hossain, 2009: 10). HIV/AIDS is an example of an illness that would

qualify under the client welfare scheme, to protect the participants and collective group from defaulting on loans (Yeboah, 2010: 158).

SAT also engages in a number of non-financial services for the poor. This includes the mandatory training programmes before accessing loans, which teach on entrepreneurial skills development, credit management and records keeping (Yeboah, 2010: 156). SAT also provides services for clients in the form of technical advice, institutional capacity building, supervision, monitoring and evaluation to support the development of microfinance. SAT also engages in public awareness campaigns and counselling services on HIV/AIDS. The SAT Youth Apprentice Program (YAP) is also offered to provide youth with employable skills (156).

Performance

In examining the impact evaluation report on the SAT, the performance to fulfill its vision for poverty alleviation for mostly female clientele can be examined. The impact evaluation report was conducted using quantitative, qualitative, and participatory methods (Afrane, 2002: 43). Four broad domains were explored in the study, which included economic, access to life-enhancing facilities, and social and spiritual domains. While the quantitative method dealt mainly with economic indicators, the qualitative and participatory methods examined social indicators and spiritual issues. In terms of data collection four main survey instruments were used: questionnaire-interviews, case studies, focus group discussions, and field operations (43). In selecting respondents for the questionnaire interviews, participants had to have been part of SAT for at least 12 months (44). The proportional sampling approach was used from a total sample size of

129 participants, which were distributed according to various categories of clients based on gender, business sector, size of enterprise, and level of education. Table 3 outlines the results of qualitative impact assessment of the SAT, and Table 4 outlines the results of economically related quantitative assessment of the SAT. For each of the qualitative indicators specified in Table 3, respondents indicated whether their situation with regard to the defined indicator had improved (positive change), deteriorated (negative change), or remained the same (no change) since joining SAT scheme (46). Average thresholds were established for clarity. The established thresholds were: (1) Less than 40% of positive change was defined as low impact; (2) 41-60% of positive change was defined as moderate impact; (3) 61% of positive change was defined as high impact (48).

In terms of ranking the positive effect of the four different domains, the economic domain scored the highest using both qualitative and quantitative indicators (Afrane, 2002: 47). In terms of qualitative indicators, the level of positive impact in: business opportunity, market opportunity, quality of business premises, and household assets were explored. Two of the defined indicators (business opportunity and market opportunity) scored in the high impact threshold with an average of 75% and 76% respondents selecting they experienced a positive change respectively (47). Improvements in household assets scored in the medium impact threshold with an average of 59% respondents selecting they experienced a positive change, while improvements in quality of business premises scored in the low impact threshold averaging 34% of respondents experiencing a positive change (47). Quantitative indicators also showed encouraging signs in the economic domain. The average monthly sales (called turnover in Table 4) of

participants increased by 157% since joining the SAT (52). Increases in the monetary value of inputs and machinery demonstrated increases at 144% and 88% respectively.

The social facilities domain ranked second in terms of averaging the percentage of respondents selecting a positive change in each of the four qualitative indicators explored. In terms of qualitative indicators the study explored the level of positive impact in: housing conditions, health conditions, food and nutrition, and children's education (Afrane, 2002: 45). The highest level of positive impact was in food and nutrition, and children's education, which recorded averaged 75% and 70% of responses indicating a positive change since joining the SAT scheme (47). The remaining indicators (housing conditions and health conditions) scored in the medium threshold with an average of 42% and 45% of respondents selecting a positive change respectively.

The spiritual domain ranked third in terms of averaging the percentage of respondents selecting a positive change in each of the four qualitative indicators explored. The qualitative indicators the study explored in the spiritual domain were: participation in church activities, church attendance, prayer and devotion, and giving (Afrane, 2002: 45). In terms of the first three indicators (participation in church activities, church attendance, and prayer and devotion), respondents generally experienced no significant positive impact, with 48%, 65%, and 65% of respondents respectively reporting no change (47). A positive impact was made in giving as the result of join SAT, which 74% of respondents indicating a positive change.

The social domain ranked last in terms of averaging the percentage of respondents selecting a positive change in each of the four qualitative indicators explored (Afrane, 2002: 47). The qualitative indicators the study explored in the social domain were:

family relations, public respect and acceptance, time pressure, and participation in social activities. In terms of family relations, public respect, and participation, most participants reported no change at 58%, 58%, and 53% respectively (47). The most disturbing indicator in the social domain was time pressure, in which 47% of participants reported no change, and 36% of participants reported a negative change since joining SAT.

Key Findings

The results of this study indicate that microfinance from SAT is most effective in the areas of the economic domain and access to facilities. In terms of the economics domain, borrowers were able to increase monthly 157% since joining the SAT scheme (Afrane, 2002: 52). This data is supported by another study that revealed that 50% of services users of SAT said they had expanded their businesses very much (Yeboah, 2010: 254). Although growth in month sales does not necessarily mean a corresponding change in profits or income, these variables often move in the same direction (Afrane, 2002: 52). This may hold some weight in terms of reducing income poverty, however it would depend on the income levels of the borrowers in the study. As demonstrated in a separate study using staff interviews regarding SAT activities, SAT does not specifically target the poor, however the smallness of initial loans, the relatively high interest rates and attending regular compulsory meetings tends to keep wealthier entrepreneurs from joining the intervention (Yeboah, 2010: 206). This does not mean that the poorest segments of the population are targeted because one of criteria for membership in the SAT programme is to own a business for not less than six months (Adjei & Arun, 2009:

15). It is unlikely that the poorest segments of the population have the capital required to have a pre-existing business before accessing microfinance services.

In terms of microfinance facilitating expansion of microenterprises the results were mixed. Encouraging signs were made in terms of increasing the value of inputs and machinery. Results were more modest in terms of hiring new workers. Of the enterprises sampled, 43% were able to take on new employees (Afrane, 2002: 54). Also in support of questioning the expansion potential of microenterprises from microfinance, a separate study that revealed that 81.7% of service users of SAT were unlikely to have hired new workers for their businesses (Yeboah, 2010: 254).

One major issue regarding possible constraints on the expanding microenterprises from SAT microfinance are the extra charges on borrowers in order to protect borrowers and SAT from defaulting on loans. SAT charges a very high level of interest on their loans that amount to around a 95% annual percentage rate (APR) in order to safeguard against the increased risk of lending to poor borrowers (Yeboah, 2010: 242). Although these charges are still not as high as the moneylenders (average 100% to 1200% APR), they are significantly more than conventional banks (average 25% to 32% APR) and increase costs for microenterprises (242). Another issue is the compulsory 10% savings that are deducted from on all loans to encourage saving and protect against losses in the event of default. These compulsory savings are not accessible to borrowers until they leave the institution and borrowers are not informed about the amount of savings they have built up (245). These compulsory savings also do not accrue interest, adding to costs. Although one study indicated that SAT interviewees were generally satisfied with their savings scheme, it is likely the result of a lack of a better option (Yeboah, 2010: 238).

Encouraging signs were also made in improving access to quality food and nutrition intake, water and sanitation facilities, and health services. This data suggests that a significant portion of the increased income from successful microenterprises was used to improve access to these life-enhancing facilities (Afrane, 2002: 49). As one client mentioned during an interview, “Our children can now have enough to eat at school, unlike before. They are excited and indeed proud of us as parents. We can notice a big difference in our relationship with our children. The loan has made all the difference” (Afrane, 2002: 49). As well as income, it is likely that the loans themselves were being used for these life-enhancing facilities. Although microfinance institutions generally forbid the use of loans for any other use except for income generating activities, a separate study found that 67.5% of SAT service users claimed they consistently used part or all of their loans for other purposes than businesses related ventures (Yeboah, 2010: 209). These SAT users claimed they used funds to pay school fees, and for housekeeping (226). This percentage may be underestimated because mentioning using the loans for other uses than income-generating activities meant admitting they had violated the regulations of SAT (209).

Some disturbing indication of the effect of SAT loans in the spiritual and social domains were demonstrated in the study. This was most apparent in the pressure of time and family relations indicators (Afrane, 2002: 50). The likely reason for poor performance in these areas is that workers may feel compelled to work longer hours in order to expand their businesses and protect themselves against defaulting on their loans. The additional hours put into working likely impacted other time-consuming indicators in the social and spiritual domains such as: family relations, participation in social activities,

participation in church activities, church attendance, and prayer and devotion. The only indicator that scored in the high-impact threshold in either the social and spiritual domains is giving, which is likely the result of increased income earned from growth of microenterprises.

The data from the economic domain of the study seem to suggest that the impact to empowerment of women is significant (Afrane, 2002: 55). What is noteworthy is that the enterprises operated by females achieved higher monthly sales increases than enterprises operated by males (53). This observation highlights the ability of women to utilize loans effectively and manage businesses successfully when given the opportunity (53). This has implications for increasing the income of women, reducing the dependence of women on their husbands financially, and increasing self worth and confidence.

While the study suggests that microfinance has the potential to increase the income of women entrepreneurs accessing SAT microfinance services, it is important to note that being part of the scheme does nothing to remove patriarchy. SAT endorses the biblical notion of patriarchy and often requires that married women seek permission from their husbands (Yeboah, 2010: 206). As female client of SAT mentioned during an interview from a separate study:

When we filled the form they asked us if we were married. Those who were married were asked to tell their husbands before they took the loans. Some people reported that their husbands wouldn't allow them to take the loans, so they were dropped (Yeboah, 2010: 206)

During the study, some of the female respondents complained of the tendency of some of the men to misuse resources when they financial situations improved (Afrane,

2010: 50). In spite of these occurrences many clients expressed that being part of SAT resulted in a positive benefit with the relationship with their husband. As stated by one female client: “We have developed a special respect for each other because no one gives a burden to one another when it comes to finances” (Afrane, 2010: 51). This data suggests that although SAT does nothing to remove patriarchy already inherent in families, the misuse of increased resources as the result of SAT financing by male family members is not a general norm.

Table 3. Qualitative Impact Assessment of SAT

Impact Indicators	Negative Change %	No Change %	Positive Change %	Impact Level	Rank
ECONOMIC DOMAIN					
Business Opportunity	0	25	75	H	1st
Market Opportunity	2	22	76	H	
Quality of Business Premises	0	66	34	L	
Household Assets	0	41	59	M	
AVERAGE	0.5	38.5	61	H	
ACCESS TO FACILITIES					
Housing Conditions	2	56	42	M	2nd
Health Conditions	0	25	45	M	
Food and Nutrition	0	25	75	H	
Children's Education	0	30	70	H	
AVERAGE	2	41.5	58	M	
SOCIAL DOMAIN					
Family Relations	2	58	40	M	4th
Public Respect and Acceptance	0	58	42	M	
Time Pressure	36	47	17	L	
Participation in Social Activities	2	53	45	M	
AVERAGE	10	54	36	L	
SPIRITUAL DOMAIN					
Participation in Church Activities	4	48	48	M	3rd
Church Attendance	4	65	31	L	
Prayer and Devotion	2	65	33	L	
Giving	2	26	74	H	
AVERAGE	25	51	47.5	M	
AVERAGE ALL IMPACT	3.38	46.6	50.4	M	
ALL SECTORS/DOMAINS					

Note. Qualitative Impact Assessment. Adapted from "Impact Assessment of Microfinance Interventions in Ghana and South Africa," by S. Afrane, 2002, *Journal of Microfinance*, 4, p. 47.

Table 4. Changes in Some Key Quantitative Variables of SAT

INDICATORS		
Monetary Variables	Amount \$	%
Average Turnover Increase	900	157
Turnover Increase: Male	317	122
Turnover Increase: Female	634	89
Increase in Value of Inputs	580	144
Increase in Value of Machinery	72	88
Employment Change Variables	Actual	%
	Increase	
Increase in Employees	413	46
Enterprises that hired new workers	43	33

Note. Qualitative Impact Assessment. Adapted from “Impact Assessment of Microfinance Interventions in Ghana and South Africa,” by S. Afrane, 2002, *Journal of Microfinance*, 4, p. 52.

In conclusion, clients from SAT have experienced modest improvements in the indicators examined in the economic and social domains of their lives but have experienced a worsening trend related to the social and spiritual indicators. It is unlikely that these people have been lifted out of poverty because they still use their loans in order to meet basic expenses such as school fees and for housekeeping (Yeboah, 2010: 224). It is more likely that the moderate improvement in assets SAT has provided has resulted in a more modest form of poverty for microfinance clientele. Furthermore, the high interest rates that SAT charges forces clients to work longer hours, which may affect their quality of life. Microfinance services from SAT is also not targeting the poorest segments of the population because of the restriction that clients must have already have an established business for six months or more before being eligible for membership into the MFI (Adjei & Arun, 2009: 15).

Chapter 5: Conclusion

Synthesis of Findings

Poverty alleviation has directly and indirectly played a major role in development theory and projects over the years. Poverty is a difficult term to define. Broadly speaking, poverty is the pronounced deprivation of well-being. The conventional viewpoint of the international financial institution the World Bank, links well-being primarily to command over commodities, and views the poor as those who do not have enough income or consumption to meet a minimum threshold (Haughton & Khandker, 2009: 2). This interpretation perceives poverty primarily in economic terms. Another viewpoint to poverty comes from the capabilities approach that was developed by Amartya Sen, which defines poverty as the diminished capabilities of people to lead lives that are deemed valuable (Hicks, 2012: 2). Poverty results when people lack key capabilities such as being healthy, educated or able to be adequately clothed or nourished. A third perspective to poverty derives from the structuralist approach, which perceives poverty as an inherent part of the structure of the global capitalist system (O'Malley & Veltmeyer, 2006: 305). To structuralists, the orthodox strategies pushed by the World Bank that have pursued poverty alleviation projects have been preserving and strengthening the underlying system that produces and perpetuates the problem of world poverty (305).

For neoliberal development agencies such as the World Bank, poverty can be described in terms of meeting a minimum level of consumption of goods and services. Poverty alleviation has been an important aspect of the World Bank's development policy since McNamara first introduced the term 'extreme poverty' in Nairobi in 1973 (Banjo, Gordon & Riverson, 2012: 1). McNamara recognized that the Bank's concern with

structural adjustments to encourage economic growth and industrialization did not necessarily benefit the people in developing countries in an equal way, and so advocated meeting basic needs as a primary condition of development policy. The ILO defines basic needs as “the minimum standard of living, which a society should set for the poorest groups of its people” (ILO, 1976: 7). As an approach to poverty, the basic needs approach included a fairly narrow set of consumption goods and services such as: adequate food, shelter, and clothing; and access to essential services such as safe drinking water, sanitation, health, education, and transportation (Stewart, 2006: 16).

In recent times, the basic needs approach has been generalized by the UN in the MDGs, which represent minimum requirements for socioeconomic development (Emmerij, 2010: 1). The primary mechanism to meet the targets involved in the MDGs are the PRSPs, which are documents that detail a country's plan to reduce poverty while pursuing economic growth. It has been argued by neoliberal economists like Jeffrey Sachs that in order to meet the MDGs poor people need to be able to get to the first rung on the ladder of development (Sachs, 2005: 244). To Sachs, the extreme poor are stuck in a poverty trap because they are not able to accumulate any forms of capital since all of their income is used to fulfilling their needs for survival. When poor people have enough income, they can invest in the capital (human capital, business capital, infrastructure, natural capital, public institutional capital, and knowledge) needed to pursue sustainable economic growth and escape the poverty trap (244).

In Ghana, ever since the negative impacts of SAPs undermined the state's ability to respond to the needs of the Ghanaian population, people have had to work in the informal sector to supplement their livelihoods (Arthur, 2011: 728). While the SAPs were intended to ensure macroeconomic stability and promote economic growth, they led to an increase in poverty levels (Loxely, 1991: 12). As a result of the depth and scale of

poverty levels, Ghana has focused on poverty alleviation as a major part of its development strategy in an attempt to benefit the livelihoods of the poor and building their asset base to protect against vulnerability (Adjei, Arun, Hossain, 2009: 4). For example, the ERP, which began in 1983, incorporated programs such as PAMSCAD, which was intended to reduce the scale and depth of poverty in Ghana. These programs however, did little to improve the living conditions of Ghana's most vulnerable groups, notably women and workers in the informal sector (Seshamani, 1994: 121). More recently, Ghana began implementing its own version of the PRSPs in the GPRS I (2003-2005), and the GPRS II (2006-2009). These policy frameworks detailed Ghana's plans to promote economic growth reduce poverty through meeting the MDG targets. Ghana has made significant progress to meeting MDG 1 to reduce extreme poverty and hunger. Despite this progress regional, occupational and gender disparities exist in terms of poverty alleviation. Specifically women, food crop farmers, and people living in Ghana's three Northern regions represent the most vulnerable groups (UNDP, 2010: 10; Ghana Statistical Service, 2000).

One of the proposed poverty alleviation tools used to meet the MDGs is microfinance. Microfinance is particularly important in Ghana, because currently only 5% of people have access to the commercial banking system (Martin, 2009: 10). The microfinance poverty alleviation strategy derives from the belief that providing small loans, savings accounts, insurance products, education, and skills training to poor people and especially women could be a way to make the poor more self reliant and become better integrated into the market. Women are targeted in particular because women tend to disproportionately make up the worlds poor and are more likely to be marginalized in terms of traditional commercial banking services (Adjei, Arun, & Hossain, 2009: 6).

The livelihoods approach provides a theoretical framework to the context of where microfinance is supposed to function. The livelihoods approach is a micro level theoretical framework that outlines the resources the rural poor need to make a sustainable living. A sustainable living occurs “when it can cope with and recover from the external stress and shocks and maintain or enhance its capabilities and assets now and in the future” (Bhuiyan, Siwar, Ismail, & Islam, 2012: 328). These resources or assets comprise of five different kinds of capital: human capital, physical capital, financial capital, natural capital, and social capital. Each of these assets is flexible and can be traded to compensate for a deficiency in one form of capital or another (Bebbington, 1999: 2039). For example, in the case study of SAT, 67.5% of service users claimed they consistently used part or all of their loans for purposes other than businesses related ventures, which included school fees (Yeboah, 2010: 209). It is important to note that assets are important not only for their instrumental function (assisting to make a living), and their emancipatory values (challenging the structures under which one makes a living) but also their hermeneutic value (in making life meaningful) (Bebbington, 1999: 2022). The fundamental idea of the livelihoods approach is that poverty policy should be concerned with improving the asset status of the poor so that they can be used more productively for their instrumental, emancipatory and hermeneutic values (Chambers and Conway, 1991: 6). In the study of microfinance, it is therefore important to look at poverty not only in narrow economic terms, but also to examine the social and spiritual ramifications.

How Microfinance Contributes to Poverty Alleviation

According to Sachs (2005) once the extreme poor are able to get to the bottom rung of development they will be able to invest in various sort of capital, and escape the

poverty trap (244). From the case study on SAT, we can see that microfinance does have an effect on improving the indicators studied in the economic and social facilities domains. Clients were able to increase monthly sales, inputs, and machinery (Afrane, 2002: 45). Almost half of the enterprises were able to hire new workers since accessing financial services from SAT. Women in particular could stand to benefit economically from microfinance since they outperformed men in terms of increasing their monthly sales (52). A critique to the empowerment of women through microfinance argument could be that it does little to remove patriarchy. As was demonstrated in the case study, SAT actually reinforces patriarchy by requiring married women to ask permission from their husbands before applying for loans (Yeboah, 2010: 206).

In terms of improving livelihoods through the accumulation of capital, the data indicates mixed results. Members from SAT benefit accumulated human capital through the business training that is given before receiving loans (Yeboah, 2010: 157). Another way human capital improved among borrowers was the improved state of housing conditions, health conditions, food and nutrition, and children's education (Afrane, 2002: 45). Physical Capital could also be improved through microfinance. The data shows that clients in SAT were able to increase the monetary value of inputs and machinery (52). Financial capital was provided through revenue through increased sales and microcredit loans, though the latter is debatable because of the high interest rates charged by SAT. Microsavings has potential as a poverty alleviation tool because they held to reduce the vulnerabilities of people working in the informal when experiencing shocks such as a period of decreased sales (Giesbert, Steiner, & Bendig, 2011: 9). In the case of SAT, 10% of loans are deducted as compulsory savings, which do little for poverty alleviation. This is because compulsory savings earned are not accessible to borrowers until they leave the institution and borrowers are not informed about the amount of savings they have

built up, if their savings have accumulated any interest (Yeboah, 2010: 245). The compulsory savings SAT users pay into therefore does very little to reduce vulnerability, and is instead used as a form of collateral for the MFI itself. SAT provides microinsurance through the client welfare scheme, which protects borrowers from risk of defaulting in the case of a group member dying or contracts a serious illness while having an outstanding loan (Adjei, Arun, & Hossain, 2009: 10). This also helps to reduce vulnerabilities from diseases such as AIDS, etc. Any improvement in social capital related to an increase in networking through participation in church activities, church attendance, and participation in social activities is unclear at best and in some cases negative (Afrane, 2002: 47; Epstein & Crane, 2005: 9).

In addressing the hermeneutic value of livelihoods (making life meaningful) there are a number of problems for microfinance as a poverty alleviation tool for women in Ghana. As we can see from the data, SAT charges very high interest rates compared with the commercial banks (Yeboah, 2010: 158; Addae-Korankye, 2012: 136). We could speculate that these high interests rates have added to the stress of repayment, which has forced borrowers to work longer hours. This is supported by the data that indicates participants in SAT perceive a negative impact in terms of time pressure since joining SAT (Afrane, 2002: 47). As was mentioned by one client of SAT: "I am not able to attend church regularly because I have to work hard in order to get money to make repayments (Konadu & Biney-Assan, 2007: 49). Working longer hours likely has negative ramifications for the hermeneutic value of the livelihood activities of the poor. The data shows that in the microfinance from SAT has had little impact in improving the conditions in the social and spiritual domains.

According to Sachs (2005) once the poor got to the first rung of development than they could escape the poverty trap (244). The first rung of development is defined as the

point where the poor are able to accumulate income beyond what is needed to survive and invest in various types of capital (244). While clients from SAT generally have been able to invest in new forms of capital, this has not resulted in a take-off out of poverty but has instead resulted in a more modest form of poverty. Borrowers have been able to make modest improvements in terms of increasing revenue through monthly sales, buying new inputs and machinery. This has translated into better access to health and education services. This should not be confused with a take off out of poverty. As the data from one study showed, most of the borrowers from SAT mentioned that they regularly use the loans for reasons other than income earning activities (Yeboah, 2010: 209). Respondents mentioned using loans to pay for school fees and for housekeeping (226). If the clients from SAT had been financially sound, then they would not have to regularly use loans for general living expenses.

It is also unclear whether SAT reached the poorest segments of the Ghanaian society. Adjei, Arun, and Hossain (2009) argue that the pursuit of financial sustainability has prompted SAT to target the less poor instead of the poorest segments of society (4). Given that most informal workers in Ghana already make an average of \$2 a day, which is twice the amount of the \$1 a day extreme poor mentioned by Sachs, we can speculate that the majority of the clients accessing microfinance are already beyond extreme poor levels, which has not led to the take-off out of poverty that Sachs envisioned (Aseidu & Agyei-Mensah, 2011: 8, Sachs, 2005: 244).

Contribution to Poverty and Development

Microfinance has a lot of potential as a poverty alleviation tool for women in Ghana's informal sector. Ever since the SAPs reduced the state's ability to respond to the needs of the population, Ghana's informal sector has increasingly been a source of

employment and livelihoods. Although the informal sector employs over 80% of Ghana's workforce, informal workers are generally poor earning only about US \$2 a day (Ghana Statistical Services, 2002; Asiedu & Agyei-Mensah, 2011: 8). These informal workers often do not have access to financial services, with only 5-6 percent of Ghana's population being reached by commercial banks (Addae-Korankye, 2012: 136).

Microfinance could potentially fill this gap in financial services, which could give an opportunity for microenterprises in the informal sector to grow, which could potentially lead to an increase of income and greater access to social services.

Although the RCBs are the most significant financial institution in Ghana in terms of geographical coverage, depth of outreach and number of products, the RCBs are increasingly moving to urban centers in search of profit (Martin, 2010: 12). Evidence suggests that while the RCBs were originally meant to provide financial services to the rural poor they are not reaching the poorest segments of the Ghanaian society. The data shows that currently only 14 RCBs exist in Ghana's poorest regions, which are the three northern regions, compared to 115 RCBs in Ghana's seven other regions (12).

FNGOs such as SAT that have a commitment to poverty alleviation are better suited to fill the needs of those without access to financial services because they are more likely to take on poorer, riskier clients. However, this does not necessarily mean that FNGOs are reaching the poorest segments in the Ghanaian society. In an effort to become financially sustainable Adeji, Arun, and Hossain (2009) argue that SAT has taken on less poor clients because they are less risky (14). This data is supported by the fact that one of criteria for membership in the SAT programme is to own a business for not less than six months (15). This criterion disqualifies the extreme poor who have neither the entrepreneurial skills nor the resources to set up businesses on their own. The high interest rates charges by MFIs may also discourage the poor from accessing

microfinance. This suggests that although microfinance may be instrumental in improving the lives of the moderately poor, it may be less helpful in improving the lives of the extreme poor.

The data has indicates that there are some negative ramifications for ‘non-material’ poverty, which was demonstrated in the case study of SAT in the social and spiritual domains. The data shows that although microfinance programs have the potential to improve the conditions of beneficiaries there can be negative impacts if certain counteracting measures are not taken. The challenge to MFIs is to be aware of these negative ramifications so that appropriate measures can be taken to minimize as much as possible in the design of microfinance services.

Recommendations

One often mentioned critique of microfinance is that it does not accept the poorest of the poor as clients because they are deemed too risky (Nawaz: 2010: 675). According to Asiama, J.P. and Osei (2007) there is a general lack of information about MFI operations and clients in Ghana (17). This makes it difficult to determine the effect that microfinance has had on reaching the poorest segments of the Ghanaian population. As was mentioned, SAT which is Ghana’s largest FNGO has a mission to serve as the biblical “mustard seed,” through which opportunities for enterprises and income generation are provided to the economically disadvantaged (SAT, 2012). Despite this mission towards poverty alleviation, SAT does not specifically target the poor, but instead dissuades wealthier clients from the smallness of the loans and high interest rates (Yeboah, 2010: 206). This does not necessarily mean that SAT has reached the most poorest and vulnerable groups in Ghana. As Adjei, Arun, and Hossain (2009) point out, the pursuit of financial sustainability has prompted SAT to target the less poor instead of

the poorest segments of society (4). This data is supported by the fact that one of criteria for membership in the SAT programme is to own a business for not less than six months (Adjei & Arun, 2009: 15). This criterion disqualifies the extreme poor who have neither the entrepreneurial skills nor the resources to set up businesses on their own. Without data regarding the socioeconomic status of clients it is difficult to account for the poverty alleviation potential of MFIs such as SAT, which does not keep track of this data.

Better record keeping of the microfinance clients are needed to measure progress in business expansion and poverty alleviation. MFIs that do provide microfinance services to the poor suffer from a lack of adequate methods for classifying various poverty levels among clients to improve understanding of the type of support that is appropriate among groups (Asiama, & Osei, 2007: 8). Information regarding overall repayment rates is insufficient, because repayment does not necessarily mean progress because clients could be selling off assets in order to service loans (Bateman, 2011: 3). Unfortunately, repayment rates were not able to be determined for this study because, SAT like many other microfinance institutions, closely guards information on repayment rates, especially how these figures are computed (Armendariz de Aghion and Morduch, 2005, as cited in Yeboah, 2010: 314). SAT does do some level of monitoring of the progress of clients in the progression from the trust bank group to the solidarity group. What is missing from the SAT framework is to track how many MFI clients manage to expand to a level where they can access commercial bank services. Microfinance should not be the permanent supplier of financial services because they tend to charge higher interest rates and give much smaller loans than commercial banks. In order to realize the effect that microfinance has had in helping informal workers to grow their businesses, it would be beneficial to track whether clients are able to grow their informal enterprises beyond receiving returns that provide a subsistence living.

Also related to the general lack of information about MFIs and their clients, approaches for data and information gathering at the national level are not uniform, which makes it difficult to monitor the progress of microfinance at a macro level (Asiama, J.P. and Osei, 2007: 17). There is a lack of well-defined reporting system by both the government and development partners with regards to their microfinance activities, which effects decision making and planning. Better information gathering will strengthen the impact that government organizations like MASLOC and SIF have in improving poverty alleviation efforts of different MFIs.

Another recommendation is that there should be a way to coordinate the goals of different MFIs. Currently there is no formal body or open forum for coordinating all activities in microfinance. The role GHAMFIN as an umbrella body for microfinance should be expanded to ensure best practices and setting standards for the microfinance industry (Asiama, J.P. and Osei, 2007: 14).

There is a general lack of communication and linkages between the different financial sectors. It has been found that traditional banks do not reach the majority of Ghana's population and could play a bigger role. One interesting development that provides an example of how linkages might work between the formal and informal financial sectors is the programme for Susu by the Barclays Bank of Ghana (BBG) (Asiama, J.P. and Osei, 2007: 14). Although most people working in the informal sector do not have sufficient income for commercial banking, it is estimated there is about a \$150 million economy beyond the traditional banking sector (14). Susu is the practise of accumulating funds through regular daily or weekly payments that are returned at the end of a specified period less a small fee. The collaboration between the BBG and susu collectors has meant that susu groups have been able to pool resources of clients into a commercial savings account. The susu collectors are then able to access loans at more

favourable interest rates than the MFIs, which it can then lend out to its members (14). More linkages like this may help to integrate microfinance with the development of the entire banking sector in Ghana.

Microfinance as a poverty alleviation tool needs to go where it is most needed. Currently the data has shown that RBCs have tended to avoid the three Northern Regions, which are the regions with the highest levels poverty and are most lacking in credit (Ghana Statistical Service, 2000). Although SAT has nation wide coverage, only 8 out of 46 branches are located in the Upper East, Upper West, and Northern Regions (SAT, 2012). This is likely the result of the risk that very poor people pose to financial sustainability of MFIs. Due to these financial risks it may be necessary for the government to play a role in providing financial incentives for MFIs to begin working in these especially poor areas. As mentioned in the data government supported apex organizations poses a risk to the allocation of resources in the microfinance industry with other private MFIs because of access to subsidized resources, which undermines the development of genuine sustainable microfinance institutions (Gallardo, 2002: 15). While this may a concern in urban areas, the data shows that MFIs have been neglecting the poorer areas in the Northern Regions in pursuit of financial sustainability. The pursuit of seeking less risky clients is undermining the poverty alleviation potential of microfinance. The government should therefore provide financial incentives for working in poorer regions. By offsetting some of the financial risks involved through financial incentives for operating in poorer areas, the government would be targeting the poor in a more direct way.

One last recommendation is that there should be a greater emphasis placed on the non-loan aspects of microfinance. These aspects include both financial and non-financial services. In terms of financial services, microsavings and microinsurance could play an

increasing role in Ghana. Due to present banking regulations, semi-formal financial institutions such as FNGOs and CUs are not permitted to organize voluntary savings accounts unless they become formal financial institutions that are licensed and regulated by the Bank of Ghana (Yeboah, 2010: 137). This limits semi-formal institutions to using compulsory savings through subtracting a certain percentage of money from loans to be put into a savings account. In the case of SAT, these compulsory savings were of little benefit to clients because they were not informed of the amount of savings they had accumulated or whether their savings had accumulated any interest over time. The compulsory savings scheme SAT uses prevents borrowers from withdrawing their savings until after they leave SAT. In order for microsavings to be an asset for the poor, then they should be informed of the savings they accumulate, and savings should be accessible in times of need.

SAT had an element of microinsurance through channelling 2% of loans into CWS for the Trust Bank and Solidarity Groups (Yeboah, 2010: 158). Unlike compulsory savings, CWS plays a significant role in protecting the poor against external stresses and shocks. The CWS protects borrowers against default risk as the result of death or serious illness of a participant with an outstanding loan (Adjei, Arun, & Hossain, 2009: 10). While this kind of insurance would prove helpful for many people, there are many other burdens that threaten the ability of borrowers to repay loans. For example, funerals for family members are quite represent unexpected expenses to borrowers and risks to the repayment of loans. Affordable insurance products could be put in place to cover funeral costs for clients (16).

There also should be more of an emphasis placed on non-financial microfinance services. In SAT, service users receive business training before receiving a loan as well as education and other services periodically. The business-training program includes

information on credit management, basic accounting principles and skills, business records keeping, good customer care, entrepreneurial skills leadership, and health training (Konadu,& Biney-Assan, 2007: 28). A number of clients in SAT mentioned the positive impacts that as education program on AIDS have had for them. As one interviewee mentioned:

The educational aspect helps us a lot. Especially to be educated about a deadly disease like HIV/AIDS is very good since we are the vulnerable people when it comes to sex. This education about HIV/AIDS will help us abstain from it (casual sex) and concentrate on our work. I wish they will not stop giving us the education but instead make it more regular. (Gloria Owusu SAT, as cited in Yeboah, 2010: 240)

The efforts of non-financial microfinance services should be expanded. For too long development practitioners have focused too much on the loan side of microfinance but there are other aspects that need to be emphasized. One possible example of where microfinance could play a role in Ghana is through the distribution of insecticide treated nets (ITNs). This would benefit many Ghanaians and contribute to MDG 6 on reducing the spread of HIV/AIDS and other major diseases.

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