

**MICRO-ENTERPRISE CREDIT SCHEMES AND THE RURAL INFORMAL
SECTOR OF GHANA : ASSESSMENT OF IMPACT**

By

ATTA-KONADU Nana Adwoa

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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ABSTRACT

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Micro-enterprise credit has been a tremendous source of financing for many small and micro businesses/enterprises in Sub-Saharan Africa and in Ghana as a whole. Micro-finance has improved the lives of many and liberated many people from poverty and misery. The increasing need for micro-credit for the poor has resulted in the sprouting of many micro-enterprise finance and poverty alleviation institutions all geared towards improving the lives of the poor by making access to credit very simple and less costly. Needless to say, poverty and the lack of access to credit still lingers in many rural communities in Sub-Saharan Africa despite the great effort exerted by these numerous poverty alleviation/micro-finance institutions. This study delves into the success stories of selected micro-enterprise projects, reasons and factors accounting for their success and factors militating against the progress of many micro enterprises, which explains the lingering problem of poverty and lack of access to credit in many rural communities in Ghana.

DEDICATION

Dedicated to my Mother and Father

ACKNOWLEDGEMENTS

I owe a great debt to all those who helped me at the various stages of this work.

My profound appreciation goes to Prof. Ju Ho Lee, my supervisor who offered me invaluable guidance and helpful suggestions, leading to the successful production of this work.

My profound gratitude goes to Mr. Charles Owusu whose thoughtful advice, optimism and encouragement offered me incentive to complete this work.

I am grateful to my family for their constant moral and financial support, advice and motivation.

My greatest debt is owed to my Heavenly father for the protection, strength and sustenance throughout this study.

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INTRODUCTION

Background To The Study

The Informal Sector And Micro Enterprises In Ghana

The informal sector exists in many developing and least developed countries (LDCs) in Africa, Asia and Latin America and are normally referred to as an ‘economic dysfunction’ because of the inability of the formal sector to absorb people in the informal economy. The growing importance of the activities of the informal sector has become more pronounced in the wake of the increasing unemployment and low-income levels especially in LDCs. ⁴ “This sector has contributed immensely to the GDP and employment creation in some countries according to empirical evidence”. The Ghanaian informal sector similar to other African countries, exhibits some salient characteristics. In terms of size, the typical informal sector enterprise is individually owned and operated generally for less than five years of duration. (Yankson, 1992). The size is often determined in terms of the number of employees including apprentices and family members engaged in capital investment. The average sizes of the enterprises vary depending on the nature and type of activity, ranging from sole entrepreneurship, to partnership to family ventures and co-operatives. The lack of access to resources also

⁴ Peter Fidler and Leiler Webster, The Informal Sector and Micro finance in West Africa

affects the type of equipments used as well as the number of persons engaged in each activity.

The table below depicts the distribution of enterprises as well as the size of capital invested. Rural and urban micro-enterprises in Ghana are similar in their undertakings.

Normally, they require very low start up capital depending on the type of business as already mentioned. The table below reveals various types of micro-enterprise economic activities in both the rural and urban informal sectors in Ghana.

Table 1. Type Of Enterprise By Size Of Initial Capital And Major Activities

Type of enterprise	Size of initial capital in (cedis and dollars)				
	Under 50 (\$)	50-54 (\$)	55-80 (\$)	N/R	Total
Food processing	63 (67.7)	5 (5.4)	23 (24.7)	2 (2.2)	93 (100.0)
Text/leather works	86 (59.3)	6 (4.1)	50 (34.5)	3 (2.1)	145 (100.0)
Woodworking	42 (42.0)	16 (16.0)	37 (37.0)	5 (5.0)	100 (100.0)
Metal fabricating	33 (44.6)	4 (5.4)	35 (47.3)	2 (2.7)	74 (100.0)
Beverages	48 (88.9)	1 (1.9)	4 (7.4)	1 (1.9)	54 (100.0)
Repair services	31 (38.8)	14 (17.5)	28 (35.0)	7 (8.7)	80 (100.0)
Auto repairs	54 (40.0)	9 (16.7)	62 (45.9)	10 (7.4)	135 (100.0)
Restaurants	32 (50.8)	3 (4.8)	13 (20.6)	15 (23.8)	63 (100.0)
Personal services	24 (39.3)	6 (9.8)	27 (44.3)	4 (6.6)	61 (100.0)
Handicrafts	48 (61.5)	3 (3.8)	26 (33.3)	1 (1.3)	78 (100.0)
Commerce	123 (43.2)	19 (6.7)	131 (46.0)	12 (4.2)	285 (100.0)
Building construction	5 (20.8)	3 (12.5)	12 (50.0)	4 (16.7)	24 (100.0)
Others	3 (42.9)	-	4 (57.1)	-	7 (100.0)
Total	597 (49.5)	89 (7.4)	453 (37.6)	67 (5.5)	1206 (100.0)

Source: Yankson, 1992

Micro-enterprises are generally part of the informal economy, they are normally not licensed, and many do not pay taxes, and are mostly unprofitable. Generally, operators

in the informal sector, such as micro enterprises function from clusters closer to cities or highly populated areas and are strategically located. Working conditions are very poor due to the insecurity of the entrepreneur's experiences with respect to their premises. According to Yankson (1992) out of 1,194 units, 85 percent operated from permanent premises, which were actually their residences, while the rest worked in temporary sheds and structures usually under trees or in open spaces. While food processing, sale of beverages and restaurants operated from home, some handicraft and sandcrete manufacturing units operated under trees or in open spaces. Micro enterprises and informal sector activities are normally of a low level of technology. Raw materials and equipments used are locally made.

Sources of Funds for Informal sector activities/micro enterprises in Ghana

The informal sector in Ghana faces a chain of problems most importantly is the aspect of financial constraints, such as inadequacy or the unavailability of credit for working capital or for the purchase of capital equipment or goods. The table below depicts the results of a survey on firms facing financial constraints in Africa.

Table 2: Firms facing financial constraints

Ghana		Malawi		Senegal		Mali	
Micro	Small	Micro	Small	Micro	Small	Micro	Small
79	83	62	68	92	90	83	72

Source: Steel (1995)

It is evident from the above table of the tremendous credit constraints facing enterprises in the informal sector in Sub-Saharan Africa. Many reasons account for this trend. The rapid expansion of the informal sector in Ghana is also as a result of the proliferation of many micro enterprises and small and medium enterprises. In both rural and urban sectors of the economy in Ghana.

The informal sector in rural communities is predominantly the realm of the poor and marginalized in society. This sector usually diverse, includes survivalists, thus the very poor who work part time or full time in non farm income generating activities, self employed people who produce goods for sale, engage in retailing or offer services, and very small businesses that usually operate in fixed locations with or without regular working hours.

The rural informal sector is particularly of great relevance in this study.

Micro-enterprises though similar in nature, rural sector Micro-enterprises are relatively

very small compared with that of the urban micro-enterprises. Their businesses require no startup capital as discussed above and normally involve the marketing of homemade foodstuffs, farm produce or handicrafts. Market vendors, of course, are active in rural areas as well as in urban areas. Most poor rural communities especially in Ghana and Sub-Saharan Africa, engage in subsistence farming activities scarcely producing any surplus and saving very little or nothing at all. Others who engage in micro-businesses (non-farm activities) have no access to credit while others who intend to engage in ‘tiny’ businesses cannot even dream of doing so because of the lack of access to credit. The lack of access to credit for micro enterprises has over the years been a lingering problem in informal sector finance. Such phenomena could be as result of a couple of reasons. Firstly, banks in general have been reluctant to finance informal sector activities especially with the granting of loans to micro enterprises. Information asymmetry could be one of the main problems explaining the behavior of banks towards micro enterprise financing. There is a possibility that lenders do not have complete information about the characteristics of borrowers. Also, although some lenders may have complete information about some characteristics of borrowers they may not have complete information about a particular borrower which may lead to that borrower being unable to explore the credit markets. This could lead to problems of adverse selection, which

exclude borrowers from the markets. Nonetheless, if creditors or banks had known the characteristics of such borrowers they could benefit from borrowing. This trend of events leads to most micro enterprise operators falling back on moneylenders as a last resort. This is because such informal credit does not require borrowers to satisfy any membership obligations even though it may be the most expensive credit available. However, this type of credit, despite the relatively high probability of loan requests being granted is normally not attractive for people seeking working capital and fixed investment loans. This also explains the phenomena of many micro businesses and poor people seeking to make ends meet by starting micro businesses lacking access to credit and thus perpetuating poverty in Ghana as well as many developing and least developed countries (LDCs).

In this study I focus on evidence on observable effects that credit has had on the incomes of the poor and how sustainable they have been. Almost all informal financial transactions take place with family, friends, moneylenders, trades people and pawnbrokers. This is because their demands for financial services are unique and outside the purview of traditional commercial bank lending. Besides market imperfections as already discussed other factors exclude potential micro enterprise creditors from the market. In Ghana some banks especially rural banks are not well

equipped. While others are reluctant to give loans to small borrowers because of mass illiteracy and semi-literacy prevalent in the informal sector, and also because they micro businesses in the informal sector normally lack collateral and the fact that most banks have no branches in remote poor villages. As a result rural people then resort to borrowing from moneylenders, and pawn brokers who exploited them and impose even greater costs on them.⁶ In most of rural West Africa, there exists a wide range of clientele for moneylenders. These include farmers, market women, other traders, non-farm entrepreneurs and other self-employed craftsmen. Farmers sometimes borrow money from the moneylenders during the planting season to maintain their households until the next harvest. They may also borrow money for expenditure on funerals and other social events. While rural households are generally known to borrow from their own communities, some may travel very far to borrow from moneylenders. Others may also borrow from savings and credit associations, which are used for consumption even though they are sometimes used as working capital. A popular savings association known as the 'Susu ' is very popular in Ghana's informal sector. Such 'Susu' collectors grant advances to some of their trusted clients. Other loan recipients are traders at local markets in need of short-term credit. One interesting aspect is the fact that when

⁶ Informal Finance for Private Sector Development in Africa. A background paper prepared for the African Development Report 1998. pgs 5-8

creditors lend to non-deposit clients, the terms are different from the above mentioned deposit clients, they tend to behave like the moneylender.

The Emergence of Rural Micro-Enterprise Finance

(Barbara C. Carl Meadow, 1996) in her speech commented “Ten or fifteen years ago, micro credit belonged to the field of micro-enterprise development. According to her, organizations involved in this field in addition to operating credit programs, operate training programs and marketing services, and are active in advocacy and policy work. Over time, it became clear that micro-credit could be fully self-sufficient in some areas, generating enough revenue to cover all costs of the program. She pointed out that Organizations began separating the credit services from other development activities and they began applying different management and funding strategies to the credit institutions. Specifically, organizations began incorporating regulated financial institutions to operate the credit services”.

⁷ “Rural finance has been transformed over the years into a comparatively more reliable system of borrowing and savings. In the absence of trades people, money lenders and pawn brokers, rural people currently engage in local rotating savings and credit

⁷ M. Todaro, Economic Development

associations which can be found in diverse countries as Mexico, Bolivia, Egypt, Nigeria, Ghana, The Philippines, Sri Lanka, India, China and others. A group of 40 to 50 individuals select a leader who collects fixed amount of savings from each member. This fund is allocated on a rotating basis as an interest free loan. Studies have revealed that many low income people prefer to save and borrow this way. Repayment rates are very high and participation is very active.” These institutions have a long tradition especially in West Africa. Groups are dubbed ‘esusus’, ‘susus’, ‘tontines’ groups and others. These groups usually dissolve after a rotation or may continue over long periods of time. This system of financing rural micro enterprises was prevalent before the recent proliferation of many micro enterprise projects.

“Many local and international NGOs have intervened in the rural informal financial sector by way of initiating a number of micro credit schemes for the poor. There is the need for rural poor to save in order to make ends meet and to cope with uneven income flows over time. This mode of financing the poor has attained remarkable successes. Micro enterprise studies have revealed the positive impacts of the Grameen Bank in Bangladesh in increasing incomes and assets ownership” (Streefland et al; 1989) (F. Islam 1992; Rahman, 1988; Todd 1995). Hassan 1988 also indicated that sample surveys confirming micro findings also report that Grameen Bank has contributed to

making household incomes 43 percent greater than the controlled group incomes (Mahabab Hassan; 1988) other micro projects have had various successes. Sustainability and outreach to the poor in greater numbers has been the basis for success for many micro projects. Nonetheless, the issue of projects living up to this expectation has not achieved much progress. Gonzalez et al, however suggests that sustainability is a necessary but not a sufficient condition for empowerment (Gonzalez et al; as cited in 'Micro finance for the poor). There have been various conflicting arguments on sustainability though; some argue that today's sustainability is a guarantee for tomorrow's outreach while others argue conversely.

Micro finance, Usury laws and Money Lenders

In this wake of micro financing, the usury system vis-à-vis interest rates caps has raised public outcry both from religious groups and moral perspectives, organizations, NGOs and Advocates for the poor. This system has been seriously abhorred. If micro enterprise finance is supposed to alleviate poverty and help the poor make a living then how much interest is to be charged or should interest be charged at all, this poses a difficult question to address within the scope of this paper. Should these projects be subject to

statutory regulation?

The usury system laws, interest rates, Islamic strictness or macroeconomic laws such as banking laws, reserve and capital requirement ratios etc in most developed countries has been adopted by developing countries. Informal sector activities in developing and least developed countries as a result become illegal but somewhat tolerated as ‘necessary evil usurers’. This may explain why most micro finance schemes fail to expand and tend to wither shortly after their inception probably because of the fear of calling the attention of regulatory institutions.

However in my opinion I suggest that, micro finance projects, as institutions should be regulated. As well as the activities of moneylenders who charge ‘cut throat’ interest rates. Many of who are still in operation in many developing and least developed countries, still extracting money from the very poor. Standardized regulations could be employed depending on the environment and the social structure of the community the micro project deals with.

A number of micro institutions have made progress by adopting different but strategic kinds of methodology and have made progress. The Grameen bank style is group

lending to solidarity groups who interact with each other often, for this reason, group members easily track loan defaulters better than the organization. Another micro-finance project, ACCION also adopted the Grameen methodology including its own measure of outing defaulters. Such regulations boil down to controlling the operations of these micro-schemes and ways of administering interest rates. Interest rates must be as fair and honest as possible so as not to worsen the plight of the poor since money lenders have continuously been accused of being exploitative, not registering for taxes and using illegal collection methods. These institutions however replace the numerous 'Shylock' type moneylenders and propose to deal humanely with borrowers and are normally regulated as such. In the wake of the recent propaganda on the 'Jubilee 2000' issue, a typical question asked might be whether the jubilee 2000 campaign condemns micro financing. Is it another replay of the flawed loan schemes and the supposed 'tied aid' that have led to the debt crisis? The jubilee campaign should not only be a cry for cancellation of third world debts and loan schemes at the macro economic level but should also focus on the administration of the numerous micro enterprise financing projects around the world. Such financing must not turn out being a way of extracting money from the already devastated condition of the poor. It should not be operated from a profiteering point of view with respect to the administering organizations. Micro

financing in being businesslike which is a very important strategy should divert such resources into making life better for the poor.

Majority of the world's poor are still poor in spite of the proliferation of micro-enterprise projects worldwide. Lots of success stories have been broadcasted by many micro enterprise finance projects. What is the reason behind this phenomenon? This paper in its broad scope, attempts to investigate how access to loans through micro-enterprise projects have reduced poverty and empowered the rural poor especially women. I will attempt to provide inroads into whether the poor have benefited from credit. I focus on evidence of observable effects that credit has had on the incomes of the poor and how sustainable micro projects have been in their areas of operation.³

“The importance of sustainability is demonstrated in terms of its absence in many officially sponsored development assistance projects for providing credit for the poor during the past 35 years, results reveal that schemes and institutions flower and die leaving the most poor people without access to savings facilities and credit as insurance”. How much worse of will the poor have been in the absence of credit? This paper targets micro enterprise credit projects in some rural communities in Ghana where

³ Raumo Zander, 19. As cited in Hartmut Schneider ‘Micro Finance for The Poor?’

people are languishing in hardcore poverty.

Many 'successful' micro-enterprise projects associate success to operational efficiency, outreach and loan repayment increases. My ultimate aim is to investigate the validity of this assumption. Limited data, for the purposes of this paper may not compliment the accuracy of the results of this study. This is because many micro projects scarcely conduct baseline surveys in their target areas. This may make it difficult to draw concise conclusions on a comparative study of this kind due to lack of data also on before and after studies. However, available data seeks to highlight some effects on of micro-projects on incomes and standards of living and also reveals some setbacks in their implementation processes.

In this paper I suggest that micro credit projects in rural low-income communities in Ghana improves the rural borrower's income, standard of living and enhances their socio economic empowerment.

CHAPTER ONE

A COMPARATIVE EVALUATION

¹‘Give us some credit’, as the saying goes, has been and is the public outcry in the informal sector of many rural economies, stemming from the lack of access to credit. This outcry is indeed the bedrock on which various micro-enterprise institutions have been built. Poverty in the least developed countries is still predominantly rural. The predicament of the rural poor in the light of lack of access to credit to cope with their uneven income flows over time, has led to some developmental initiatives in the form of financing rural micro-enterprises. This has led to the proliferation of a number of governments, local and international Non-Governmental organizations offering low-income people with economic opportunities in the form of initiating micro-credit schemes in rural and urban communities especially in developing and least developed countries. ² “Many countries have adopted micro-enterprise schemes based on the Grameen model among them are several countries in Latin America, Africa and Asia

¹ The informal sector: informal economic activities (ILO 1972 page 5); the uses of the word informal sector in recent times is simply a short hand for very small enterprises that use low technology modes of production and management. In the context of this study it implies a traditional mode of production and therefore excludes small high-tech businesses.

² Murdoch, 1997

and the United States. Some of these projects have been more successful than Grameen if only by the narrow criteria of economic viability”. However, in this instance their clientele are those with economic characteristics that are very different from their Bangladeshi counterparts. The Grameen bank has made wide outreach and innovative inroads into small scale lending because it has reached out to the very poor.

INSTRUMENTATION

Key concepts for this study were operationalized as follows:

Rural Micro Enterprises

In the context of this paper, rural micro enterprises can be defined as very small enterprises, majority being unregistered (have no legal backing), one man businesses with very few wage workers or none at all. Rural micro businesses include the marketing of foodstuffs handicrafts, homemade foods, artisans, hairdressers, tailors and dressmakers etc. They have common characteristics and require little or no start up capital, and are mostly funded by family remittances, friends, pawnbrokers, moneylenders and rural credit associations.

Hardcore Poverty (poorest of the poor)

These groups of people are those that live below the poverty line, and in destitution. They live in high levels of subsistence and can hardly have any surplus funds to save. They usually face consumption crisis such that their most pressing need is to satisfy immediate consumption needs necessary for their survival. These are basically food clothing and shelter. ⁸“The poverty line is referred to as an arbitrary international real income measure usually expressed in constant dollars for example (\$270) a month in constant prices plus inflation, which is used as a basis for estimating the proportion of the world’s population that exist at bare levels of subsistence”.

The poorest segments of the rural populations are mostly households headed by women in which there are generally no male wage earners and who usually have less education, low incomes and higher fertility. ⁶ “Women roughly headed 20 percent of rural households in India, 17 percent in Costa Rica and 40 percent in Rural Kenya. And the proportion is rising throughout most of the third world”. Women are most likely to be among the very poor because their earning potential is considerably below that of their male counterparts. This paper may however intend to focus on the poor and poorest as a whole but may be in favor of female destitute in the course of my analysis of various

⁸ M. Todaro, Economic Development

micro finance projects.

Success Indicators

This concept was defined as the extent to which micro enterprise projects reaches out to majority of the poorest people, the percentage of its target population, followed by observable positive changes in income levels, living standards, empowerment of women, and productivity of the population. Not losing sight of the sustainability of the project itself in terms of low operational costs and interest rates that are adopted to cover cost while reaching out to an expanding number of clients. Financial intermediaries serving the poorest must incur great turnover rate and high loan repayment or high loan recovery rates.

Projects are to be well grounded, viable and efficient over long periods of time, which would guarantee outreach to more of the poorest people who have no access to credit.

The above will basically be the main determinants of success in this study.

Growth

⁹“Growth is also an important mechanism for success in micro-finance. Growth in terms of the addition of new and better products, such as deposit facilities, helps the

⁹ Claudio Gonzalez-Vega et al, ‘Bancosol: The Challenge of Growth for Microfinance Organizations. Page 129

intermediary satisfy more of the demand for financial services from existing potential clientele, growth improves the quality of outreach”.

Empowerment

Schuler and Hashemi, explained empowerment as, “improving the lives of poor people especially women who were greatly constrained by poverty, law, religion and culture. The underlying assumption here is that strengthening women’s economic roles gives them more autonomy and more control over important decisions affecting them and their families as well as contributing to their self confidence and their ability to plan for their future” (Schuler and Hashemi, 1994, page 73). The status of women are improved such that they become less dependent on others but rely to a greater extent on themselves, thus enjoy social and economic independence.

CHAPTER TWO

THEORITICAL FRAMEWORK

This study adopts the theoretical position that self-help brings progress, sustains personal and financial stability and grows out of access to information, which can be achieved through vision, commitment and action. Micro-Enterprise finance is also founded on the theory that, based on tiny loans they have the potential of ridding the poor from desperate poverty.

This can be linked to Functionalism. The Functionalist theory is about the living organism, with its several parts and organs, grouped and organized into a system, the function of the various parts and organs being to sustain the organism. Similarly, members of a society can be thought of as cells. Their institutions and its organs, function is to sustain the life of the entire society. Bronislaw Malinowski and Radcliff Brown are two of the proponents of functionalism. According to B. Malinowski, individuals have physiological needs and that social institutions develop to meet these needs. He also referred to four basic individual culturally derived needs (economics, social control, education, and political organization) that require institutional devices.

Each institution has personnel, a charter, a set of norms or rules, activities, technology, and a function. (Goldschmidt 1996:510; Voget 1996:573). “Radcliff-Brown, focused attention on social structure. He suggested that a society is a system of relationships maintaining itself through cybernetic feedback, while institutions are orderly sets of relationships whose function is to maintain the society as a system”. (Goldschmidt 1996:510).

The two functionalist theorists though differ in their theory of systems analysis, share arguments boiling down to the systems theory where each part of the system functions for the entire benefit of the system as a whole. Micro enterprise finance projects are regarded as a system which is a part of the entire society. It evolves around a network of social organization, coming together to build social capital, which then facilitates these micro enterprise projects. Each member of the scheme therefore bears the responsibility of being accountable to and for the entire group. This is where Group dynamics and cohesiveness play vital roles in micro-enterprise projects.

¹⁰“Applicants, usually having a poor credit history, meet in peer groups composed of other borrowers. Together through a step-by-step process they work toward bettering

¹⁰ Norm MacIsaac, *Microenterprise Support: A Critical Review*, Canadian Council for International Cooperation, 1996

their individual credit, creating and realizing well thought-out business plans”. Linking to the functionalist (systems) theory, each person's success affects the borrowing potential of the group, as the functioning of a part of the system affects the whole system as a whole. The participants steer their progress and success through their demand to learn, to be mentored and to succeed, which is all about attitude. When a micro enterprise participant walks through the process of lending, the participant builds a social network that ties him/her socially and structurally to their peers through a sense of community.

OBJECTIVES

This paper sets out to investigate whether rural micro-enterprise credit projects have liberated the rural poor from poverty and misery by raising income levels, improving standard of living and promoting empowerment.

Specifically, the following will be assessed:

- A) Comparing projects and their effects on rural incomes after the project was initiated.
- B) Compare the extent to which various projects have empowered participating women.

C) Compare projects that provide rural credit in addition to basic social services and projects that have focused solely on providing credit and assess the extent to which both have impacted living standards.

METHODOLOGY

Data for this study was derived from secondary sources. From Internet sources, Working papers, Case Study reports on Micro –Enterprise finance, books and journals.

In order to do a comprehensive comparison and for proper representativeness of the population of study, I selected two (2) projects by agency (funding agency) by simple random sampling, and further selected randomly (2) projects funded by these agencies and one project funded by a local funding agency. The agencies selected are the following non-governmental organizations: The World Bank and an Individual funding agency. Under the World Bank sponsored projects I selected the Enhancing Opportunities for Women in Development Project (ENOWID) under the Programme of Action to Mitigate the Social Cost Adjustment (PAMSCAD). Under the Individual funding agencies I selected The Freedom From Hunger Project.

In this comparative study, I analyzed the impact of each of the above-mentioned projects on empowerment, income levels, access to credit, productivity or output and standard of living. These dependent variables are in a way interrelated in a cyclical manner and do influence income levels of borrowers culminating in the determination of the extent of standards of living and poverty reduction.

Accuracy of the results of this study cannot be guaranteed in the light of some methodological problems and measurement errors. These include the fact that some of the projects under study lack before and after baseline studies on assessment of impact, which is more likely to give a more accurate results on assessing impact, thus data in this aspect for the purposes of this paper is very limited. I however was unable to control for the independent variable, I lacked access to adequate data on empirical comparisons of participating and non-participating communities in micro-enterprise credit schemes/projects.

The paper is also prone to some tendencies of bias inherent in the testing of my hypothesis that micro credit has improved rural income. ¹¹“Here even after controlling

¹¹ Debraj Ray, Economic Development, page 582

for the observable variables such as age and education that we can measure, it may not be enough to look at the incomes of a borrowing household relative to the incomes of non-borrowers. In that we are unable to observe characteristics such as drive, creativity, inventiveness or entrepreneurship, which are the traits that the borrowers themselves use when forming groups”. Not neglecting the fact that other variables such as remittances from family, friends. Charity or inheritance may account for the increases in income levels.

The paper first investigated the effects of the micro-enterprise projects on the lives of the people in communities of operation. I compared results of each project and assessed the extent to which each had reduced poverty. Comparing each of the dependent variables. The empirical findings reveal which of the projects under study benefited the rural poor the most. Its important to highlight the fact that most micro-enterprise projects report uttermost success without detailed assessment of problems, this may lead to some bias in this paper.

CHAPTER THREE

ASSESSMENT OF IMPACT

Freedom From Hunger-Lower Pra Rural Bank

The Freedom from Hunger is an international nonprofit organization that promotes ‘self help’ for a hungry world. Their mission is to empower the poorest families and communities through self-help. Since 1989 the Freedom from Hunger has worked with local partners to develop and disseminate a cost-effective integrated program strategy called credit with education, with the goal of improving the nutritional status and food security for poor households in rural areas of Africa, Latin America and Asia. A multi year research was conducted by the Freedom from Hunger in collaboration with the program in international nutrition at the University of California, Davis. The Innovations Grant from the Thrasher Research Fund and a smaller grant from the Nutrition division of the UNICEF/New York primarily funded this research.

Barbara McKnelly and Christopher Dunford in their evaluation report gave brief background information on the Freedom from Hunger project. According to their

evaluation report, ¹²The Freedom from Hunger currently partners five Rural Banks implementing Credit with Education with a total membership of approximately 6,000 borrowers. The Freedom from Hunger in partnership with the Lower Pra Rural Bank in 1992 began a Credit with Education project in the Shama Ahanta East District of the Western Region of Ghana. The target groups for this project were the poor and rural women. It is noteworthy that Rural Banks mostly serve micro entrepreneurs and their clients are mostly women. Most loans administered are much larger than or less than \$300 characteristic of a poverty lending program. According to the evaluation report, The Freedom from Hunger's philosophy fits the objectives of the Rural Banks. As a strategy of successful implementation of its objectives of providing credit with education, the Freedom from Hunger provides training and technical assistance to the boards and staffs of the participating Rural Banks to implement the program. The education component of the Credit with Education is designed to complement the credit component by empowering women with information, skills and confidence they need to better manage their own and their family's health and nutrition. The Credit Associations regular meetings include learning sessions addressing three areas: health and nutrition,

¹² Rural Banks are autonomous, community-based organizations regulated by the Bank of Ghana. They were originally set up as community managed development banks to mobilize rural savings, furnish credit to rural entrepreneurs, and support community initiatives and mandated to serve small-scale economic entrepreneurs in their service areas

micro enterprise development and credit association management.

The staffs of the Freedom of Hunger project are trained so as to be able to tackle all aspects of the project including the provision of technical support for the smooth running of the program. The Lower Pra Rural Bank had by 1997 made over 9,000 individual loans with a total value of just under \$600,000 to women participation in the Credit with Education Program since its inception in 1992. (Barbara MckNelly and Christopher Dunford, 1998). According to the evaluation report by March 1997, there were 1,491 women organized in 55 credit associations in the communities surrounding the lower Pra Rural Bank. While the majority 1,131 of the women were taking loans, approximately one quarter (360) of the women were participating in educational sessions and depositing savings only. The women's savings on deposits with the Rural Banks was \$10,471, with the total amount of loans outstanding being \$88,173. The average loan size was the cedis equivalent of \$78 for a four month period.

The impact of the program was assessed by conducting a baseline survey, as has already been mentioned. Impact was also evaluated by comparing the difference between two time periods (1993 and 1996) for participants, non-participants and

residents in control communities. The program targets poor women in rural societies as their clientele.

Economic Impact

The credit with education program has credit and savings as its component and has had the most direct economic impact. Non-formal education on micro-enterprise development as well as the group solidarity and support also aim to improve participant's economic returns and entrepreneurial skill.

The table below depicts the activities of both participants and non-participants who engage in very similar activities. The table below also depicts the impact of credit intervention on various choices of economic activities.

Table 3

Secondary Work Activity

Activity Type	Participants (N=83)	Non- Participants (N=103)	Residents of Control Communities (N=98)
Farming	17 (20%)	15 (14%)	15 (15%)
SELF-EMPLOYED (Sub-total)	50 (60%)	37 (35%)	41 (41%)
Cooked Food	16	10	8
Make/Sell Oil	8	8	9
Non-Food Commerce	5	5	4
Processed Agricultural Products	6	3	3
Sell Fish/Lobsters	2	4	5
Sell Foodstuffs/Agricultural products	13	6	10
Services (dressmaking)	0	1	0
CASUAL LABOURERS	0 (0%)	0 (0%)	3 (5%)
SALARIED WORKERS	0 (0%)	0 (0%)	0 (0%)
NO SECONDARY WORK	16 (19%)	51 (49%)	39 (39%)

Source: Freedom From Hunger-Impact of Credit with Education-Research Paper No. 4 pg 19

Non-participants (56%) in the program were more likely to engage in farm activities as their principal occupation, than participants (39%) while members in the control communities only recorded 40 percent. This is partly due to the availability of credit with education that enables participants to undertake more non-farm activities. Under women's work activities, the researchers realized that there were a greater number of participants who were self employed compared with Non-participants, (58%) and (34%) participants and non-participants respectively. Whereas those in the control communities recorded 50 percent. However, still, 61 percent of the non-participants and

78 percent of those in the control communities had also engaged in a self-employed enterprise over the last twelve months. The study results revealed that in combining the principal and secondary activities, participants showed notably higher involvement in selling cooked food than those in the other two groups, although there was a similar representation across the other three groups for other enterprise areas. Only few women engaged in salaried work or casual labor as their principal work activity.

It is pertinent to note that credit /poverty lending programs such as Credit with education exhibits similar characteristics, this is portrayed in the similarity in work patterns across the three samples which reflects the nature of credit and loan activities. As already mentioned credit and loan available to participants coupled with education greatly influences types of economic ventures to engage in. Reliable access to credit enables women to expand their existing activities and potentially operate them more profitably and regularly. Loan activities in general reflect the principal work traditionally undertaken by women in the program area. In the study, participants however tend to be engaged in a greater diversity of income-generating activities than non-participants. 80 percent of the participants sampled had secondary work as compared to only 50 percent of the non-participants and 60 percent of residents in control communities. It is however

also common for participants to engage in a multiple activities almost at the same time. The 1996 impact study revealed that almost a quarter (24%) of the participants in 1996 had earned non-farm income from two different activities during the four week period even before the survey was conducted compared with only 9 percent of non-participants and 11 percent of those in the control group. It is noteworthy that participants' non-farm activities and earnings also seemed more stable. During the four week period preceding the interview, 91 percent of the participants had earned non-farm income as compared with 51 percent of non-participants which was significantly different with $p\text{-value} < .001$ and 67 percent of the control group also significantly different with $p\text{-value} < .001$.

Women in the study area were economically active and access to credit indeed had an impact on their incomes. According to the study a great majority of participants, over 90 percent reported that their incomes had increased since their joining of the Credit with Education program. 28 percent reported that their incomes had increased greatly. Participants gave the following reasons accounting for their increases in incomes. 53 percent of participants explained that they were able to expand their scale of income generating activities due to the availability of credit. Before joining the program women often got all or part of their inputs on credit because they lacked working capital,

however upon joining the program, 36 percent of the participants stated that operation costs had been reduced because they were no longer dependent on getting inputs on credit basis. 30 percent of the participants also stated that their costs reduced because they are now able to obtain inputs in bulk, 28 percent stated that they undertook new activities or dealt in new products and 8 percent stated that they sold to new customers. This is in line with the main objectives of the Credit with Education Program. Before the program access to credit was almost impossible for participants and thus many resorted to obtaining inputs on credit as mentioned above, thus many were not able to engage in a variety of activities neither could they benefit from increased profit margins. However even with the Credit Program only 28 percent of participants attributed their increased incomes to new activities or products. Barbara and Christopher in their report asserted that during in-depth interviews, borrowers commonly spoke of improved profit margins, which they attributed to their ability to borrow from the program. Operating a micro-enterprise on what they termed “ credit basis” is very widespread in the program area according to the evaluation survey report. For instance farmers normally provide coconuts or palm nuts to oil producers on credit of which they are able to pay for these inputs after selling to the oil wholesalers commuting to the big cities such as Accra the capital of Ghana. A fisherman may give a woman fish on credit she will for after

smoking the fish and selling it in a nearby market. Often these women are merely price takers who normally go without profit, living at barely subsistence levels, after remitting the cost of inputs borrowed.

According to Barbara and Christopher in their report, they stated that information from their baseline survey indicated that the effective interest rate in this type of arrangement was on average 17 percent for a two-week period, or approximately 442 percent per annum. In some cases, there was no additional cost for receiving inputs on credit; however such arrangements depends on familiarity or social ties and may involve greater ¹³‘search costs’. Given a woman’s limited options for cash credit, either formal or informal, the current level of women’s active and widespread involvement in commerce would not be possible without these types of arrangements. Even after joining the program, some of the participants continued to get a portion of their inputs on credit because their program loan was not large enough to finance the scale of the variety of activities. According to the report, even though there was a great tendency for the participants to engage in more than one income generating activity, in the 1996 program participants were significantly less likely to obtain their inputs on credit than

¹³ Search Costs’: - Some women normally move in-between farmers in search for credit that does not require repayment that is not more than the going rate, the process continues until she finally finds a

non-participants and residents in control communities.

In terms of estimated profits, it was realized that the women calculated or estimated profits differently, this brought to light the fact that women's definition or conception of profit was did not correspond with the specific business definition which requires netting out non-monetized business related costs such as depreciation of assets or wages to family workers. Secondly, they realized from the study that the conceptualization of 'profit' highlights a considerable integration and interaction of the welfare of women's business to the welfare of their families. Those women normally engage in income generating activities so that they can feed and cater for their families very well. This trend depicts an aspect of women's empowerment that is also an important objective of every credit with education program, which is designed to strengthen women's economic capacity to invest in their families and the tendency to fuse business and family expenses together.

farmer who will agree to the going rate.

Table 4

Net Income from Micro enterprises or Wage Income in the Preceding Four Weeks-Mean
(and Standard Deviation)

Year	Program Communities		Control Communities
1993	Future Participants N=44 \$5.75 (8.2)	Future Nonparticipants N=145 \$4.05(8.9)	Residents N=94 \$5.98 (11.1)
1996	Participants N=86 \$41.50 (46.8)	Nonparticipants N=103 \$21.95 (43.5)	Residents N=99 \$22.85 (52.9)

Source: Freedom From Hunger-Impact of Credit with Education-Research Paper No. 4 pg 19

Significance difference in log value of respondent-estimated monthly profit between years for participants versus controls ($p=.001$) and participants versus non-participants ($p=.001$) but not for non-participants versus controls.

The table four above from the survey report depicts an alternative measure of non-farm earnings or estimated net profit. Women were asked to itemize their business costs (not including family labor, depreciation or interest payments) and estimated revenue earned over the past four weeks, before the period of evaluation. The table above indicates that there was a significant difference between years for participants versus non-participants and participants versus those in the control communities. Compared with the baseline measures, the increase in net non-farm monthly income was \$36 for participants, \$18 for non-participants and \$17 for the control group. The net income estimates were higher than the estimated profit, which might further reflect the tendency for some

women to net out family expenses when estimating their profits.

The report also revealed that although the 1996 participants had exhibited significant improvement in their non-farm earnings, it is noteworthy that there was considerable range in participants monthly earnings. The survey results revealed that some participants income recorded as high as \$200 to \$330 per month, while 10 percent of the participants reported net earnings of \$10 or less per month. It is also noteworthy that the same credit association depicts differences in impact assessment with some women experiencing considerable increases in income while others experienced only little change. A better understanding of the factors that allow some women to be relatively more successful in individual attributes, entrepreneurial skill, specific income-earning activities or program loan terms could lead to changes in program implementation, such as micro-enterprise development implementation, and micro-enterprise education, which might enhance the economic impact for other less successful borrowers.

Women in the program on the whole have benefited in diverse ways. Their access to credit contributed to their overall increase in household income that in turn has enhanced women's bargaining power. Women have been able to divert household

income into providing nutritious food and health care in their homes. On the whole the significant increase in the women's bargaining power has led to a greater impact on total household spending than the specific amount of her increased earnings. The credit for education program has had great impact on women in survival communities many of whom have benefited from practical entrepreneurial and credit use skills development. And are more likely to consider demand and profitability when deciding to invest in income-generating activities than non-participants and residents in control communities. There was also a significant difference in savings held by participants vrs controls and participants vrs non-participants. However about a quarter of the participants admitted that they still face difficulties in loan repayment. This could be explained by some unforeseeable social factors such as illness or death of a family member, thus requires resources to be diverted to cater for such expenses.

Social Impact - Health, Nutrition and Empowerment

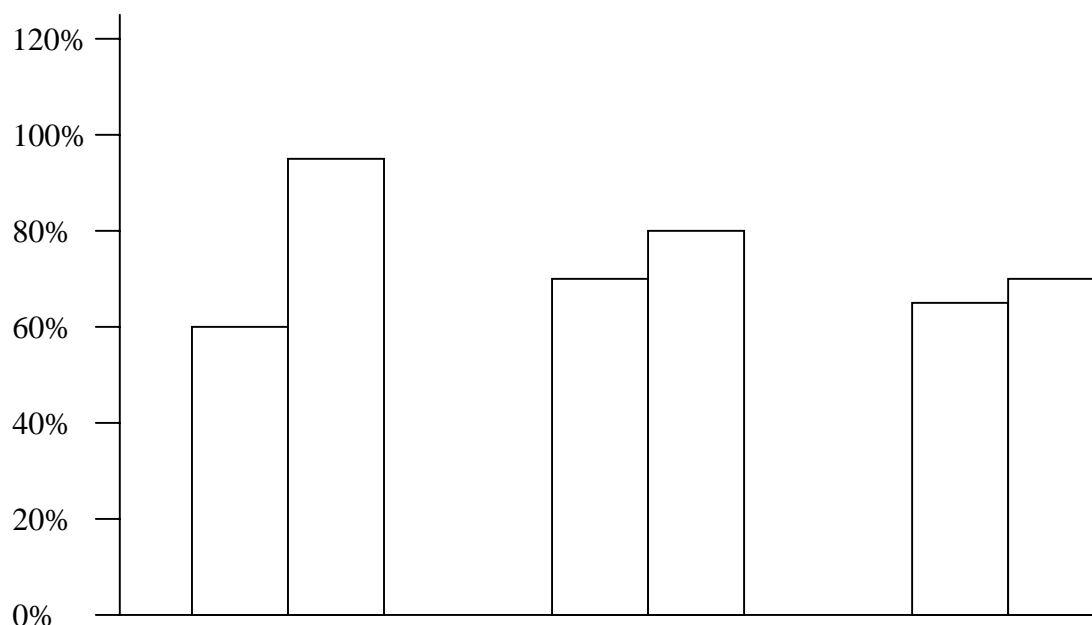
The credit for education program had a significant social impact on the target community. This program as part of its main objectives was also designed to educate participants on child nutrition, thus key health and nutrition practices in their communities since the root cause of malnutrition is mostly poverty. Non-formal health

and nutrition education was then integrated into the credit delivery system and the learning sessions facilitated at the credit association's regular meetings. Information on breastfeeding practices, child feeding, diarrhea treatment and prevention and immunization were collected from the communities and impact was assessed through comparison of baseline surveys and follow-up measures of the women's knowledge and practice of the specific ideal behaviors promoted in each of these topic areas.

According to Stephanie and Christopher, the evaluation studies revealed a rather interesting phenomenon. While between 35 percent and 40 percent of mothers had discarded their colostrums either before or after the child was born which was not due to any cultural taboo, The 1993 survey revealed that while only 60 percent of the 1993 future participants had given their new born colostrums, 98 percent of the 1996 participants who gave birth after joining the program gave their new born colostrums. (See Figure 1). According to the report there were significant and positive differences between years for participants versus controls and for participants versus non-participants. This indicates a positive effect of the program on encouraging mothers to give newborns colostrums. The participants also assimilated the programs education on exclusive breastfeeding (meaning no water and foods) until babies were approximately

six months old. Interestingly though, the authors before then indicated that the baseline research found out that a great majority of mothers 93 percent, introduced water during their new born's first week of life. This is because they believed the babies needed water to survive, but by doing so they made the babies more prone to diarrhea and other illnesses. The Credit for Education Program however emphasized the benefits of exclusive breast-feeding. Also during the period of research UNICEF through local health care centers also propagated the same message. In assessing the social impact of this program on the participant's communities, the participant sample size was again restricted to include those women who gave birth after joining the program and also those who had the opportunity to apply program messages. The figure below depicts a remarkable change in colostrums feeding to newborn babies.

Figure1 **Women who Gave Colostrums to Newborns**



Source: Freedom From Hunger-Impact of Credit with Education-Research Paper No. 4 pg 33

<u>Program Communities</u>		<u>Program Communities</u>		<u>Control Communities</u>	
Future Participants	Future Participants	Future Non-partici	Future Non-partici	1993	1996
1993	1996	1993	1996	(n=92)	(n=102)
(n=47)	(n=55)	(n=144)	(n=112)		
60%	98%	65%	78%	61%	71%

Comparing baseline survey for the year 1993 and 1996

*Significant difference for participants versus control group (p<.001)

*Significant difference for participants versus non-participants (p=. 006)

*No Significant difference for non-participants versus control group

The report revealed the positive impact the program had on the exclusive breast feeding from women who gave birth after joining the Credit with Education program. They noted that participants did not introduce water or watery foods until their babies were

five months old. Also of the women who had more than one child, significantly more participants (63%) in 1996 reported positive differences in how they breastfed or fed their child included in the study as compared with other children. Only 23 percent of the non-participants and 10 percent of residents in control communities did so. Stephanie and Christopher indicated that in comparing responses from the 1993 baseline and 1996 follow-up surveys, participants demonstrated positive and significant increases compared with non-participants and or residents in control communities in the various breastfeeding practices promoted by the Credit with Education Program. However, the project which is a kind of credit with education and savings scheme is that which has stimulated positive social returns, which in turn could yield greater economic benefits. This is an example of progress when micro credit is combined with social services.

Another aspect of the positive social impact of this program in participating communities is the aspect of women's empowerment. The importance of women's self-confidence and status was highlighted/hypothesized in the programs objective. This aspect is also relevant for the proving of an aspect of the hypothesis in this study Dunford and MKNelly hypothesized in this study that "program participation will create fundamental changes in women's inner sense of self, social relations and lifestyles that

will empower them to confront problems, take risks and make her own informed choices for better health and nutrition”. Berger, 1989, asserted that “self-confidence can be linked to a more open attitude toward learning and problem resolution and more specifically, to greater success in breast-feeding”. The major objective of this Credit with Education Program is also to foster empowerment both on the individual and group level.

In evaluating the extent to which women have been empowered through the credit with education program, the authors indicated that this was done through interviews from which they received various responses from participants, according to them members took pride in the fact that they have been able to contribute more to the well being of their families due to the loans they were given. Several women also described the positive impact this had had on their confidence, self-reliance and relationships with their spouses, and also the feel of being empowered in terms of knowledge on health care money and business management. The report indicated that a number of measurable and meaningful indicators were selected; they are basically, self-confidence and decision-making in the household, and status and social networks in the community. The authors in an attempt to measure self-confidence which is a very difficult to

measure, they tried to tie the concept to a specific situation or action. According to them in the follow-up impact survey the women were asked to rate their self –confidence using specific range of “very confident”, Somewhat confident”, hopeful” and not “not confident” on whether they thought they will be able to apply their knowledge acquired from the nutrition lessons to feeding their kids and keeping them healthy, educate their children to their fullest potential or project an increase in income the following year. The wordings of these options was tested in a number of informal discussions.

The Credit with Education Program through a combination of cash credit including vital health/nutrition education, has enabled women feed their families with more nutritious food, invested in their children's education, take control of their families' health, and help each other to have a greater influence in their communities. As program participation is intended to foster an approved sense of solidarity and organizational capacity among women, which in turn enables them to address community problems and help one another. Participants in this program have been able to contribute more meaningfully in their societies by way of joining groups and affiliations to other community associations. According to the survey report, women have been able to offer health/nutrition and business advice to others.

Women's empowerment due to the program also had very important impact on the nutritional status of children in the community as well as the overall household food security. The authors argued that, baseline survey results revealed that after the program was implemented, the nutritional status of participant's children, both in terms of *acute mean-weight-for-age in z-scores* (WAZ) and long term measures of *height-for-age* (HAZ), showed significant and positive change as compared with children of non-participants and those in control communities. "Participant households exhibited a reduced vulnerability to the "hungry season" relative to the baseline period as compared with the two non-participant samples.

The figures in the appendixes show the various responses from communities' members with respect to empowerment.

Enhancing Opportunities For Women In Development (ENOWID).

A PAMSCAD Credit Intervention Project

This is a summary of empirical findings of a credit intervention project in one of the most vulnerable villages in the Western Region of Ghana. The project is a World Bank funded credit programme.

The Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) was launched to enable some cushioning of the Structural Adjustment Programme intervention in the economy of Ghana. This credit program targeted poor rural women in the Western Region of Ghana aimed at enhancing the Opportunities for Women in Development (ENOWID). The project has a credit, technology and skill development, health and family planning projects. The project was specifically aimed at alleviation poverty among women through employment generation. Some of the programme objectives were to expand its support to existing arrangements to motivate women in economic activities to improve their investment opportunities and stabilize their income. The authors, Ardayfio-Schandorf, C. Brown and Peter Aglobise, these objectives were to be achieved through, improving appropriate technology in food production,

improving managerial and business skills, providing access to credit, encouraging savings and strengthening the capacity of extension agents to delivery services and mobilizing resources to help them.

Empirical results were obtained from the analysis of field data on the impact of ENOWID on the access to credit, output, income, standard of living of the household and community, social status and empowerment.

Economic Impact

E. Ardayfio-Schandorf in her summary report of the results of this study revealed that there had been easy access to credit with the intervention of ENOWID for the project participants (PP). 94 percent of the PP stated that their access to credit had improved over the period of the project. With only 4 percent indicating that their situation had worsened. Over 30 percent each of non-participants (NPP) and non-participants in non-participating villages (NPN) in the project said their situation remained the same. 89 percent of PP attributed this improvement to ENOWID while NP attributed their predicament to the non-existence of credit facilities and the difficulties in obtaining credit.

Improvements in program participants (PP) access to credit enhanced output, the study revealed that 68 percent of PP had increased output as compared with 33 percent of NP and 34 percent of NPN, 64 percent of PP had experienced better marketing of their produce while 51 percent NP and 46 percent NPN had had no improvements.

She also pointed out that, the project has also improved rural women's income as increases in production and businesses of the ENOWID participants will lead to sustainable increases in income levels compared with non participants. The table five below shows that 79 percent of PP had reported that their current levels of income had improved. Forty six percent (46%) attributed the change over the last 3 years to increased economic activity as compared with 22% and 18% NPP and NPN respectively. Nonetheless, 87 percent of participants attributed the rise to their access to credit.

The report revealed as illustrated in table five below, that on the average 16 percent of all the women said their current personal incomes remain the same as compared with that of three years ago.

Logistic regression results of the study involving increased output and income as perceived by respondents for the participating villages were statistically significant and

positive explaining increased output (t-ratio of 6.9833) and income (t –ratio of 4309).

The participants were also able to acquire the habit of saving as incomes and output increased. 73 percent of the participants saved while 24 percent NP and 21 percent NPN did not save at all.

Table 5

Current Personal income of Women Participants as Compared With Last Three Years

Response	Participating Villages		Non-Participating Villages	
	Participants	Non-Participants		Total
The Same	15 (8.4%)	36 (20.7%)	32 (18.1%)	83 (15.7%)
Better	142 (79.3%)	91 (52.3%)	76 (42.9%)	309 (58.3%)
Worse	22	43	58	123
Not Applicable	–	4 (2.3%)	11 (6.2%)	15 (2.8%)
Not Reported	1	6	3	10
Total	180 (100%)	180 (100%)	180 (100%)	540 (100%)

Source: *Field Survey, ENOWID, 1994*

Social Impact

In terms of empowerment, and standard of living, increased incomes and output in economic activities of women participants in the ENOWID intervention project increased women’s independence to a greater extent, they were able to make independent and joint decisions in connection with domestic needs of the households

income, household expenditures etc.

The study also revealed that the socio economic condition or the standard of living of the household had improved, households had the ability to improve the nutritional status of the household, educate their children and improved their purchasing power. PP indicated that this was due to increase in produce from their focus in other income generating activities yielding additional income. Health status of PP had also changed over the PP have observed improvements in health status compared with 51 percent of non-participants in the participating villages. PP participant interesting stressed more general health while non-participating villages stress the availability of health facilities.

Ardayfio also stressed the positive impact the ENOWID project has had on participating villages also had a spill over effect on non participating communities increased income and output of PP gave their more incentive towards contributing improving communities, empowered members were able to get involved in more decision affecting the entire communities for the betterment of other communities. Members of non-participating members strive to imitate them in order to enhance the standard of living of the communities as a whole.

CHAPTER FOUR

HYPOTHESIS TESTING

I will hereby test my hypothesis that rural micro enterprises improve borrowers income, standards of living and empowerment. In the light of the cases study summaries.

With the cases analyzed, each records some unique amount of success in their intervention in rural communities. For the purposes of this paper success will be analyzed from the scope of the determinants/indicators of success as described in this paper.

Outreach

In terms of outreach all the projects seem to have had some degrees of outreach and growth over time. The Freedom From Hunger project in Ghana recorded some amount of success in terms of the proportion of the population to which loans were given or who had had access to credit facilities and nutritional improvements. Outreach was quite encouraging due to the nature of many micro credit projects especially in rural communities in Ghana not having a wide coverage area. The Freedom from Hunger Project partners five Rural Banks with a total membership of approximately rural 6000

borrowers. This project which started in 1992, according to the evaluation report had by 1997 made over 9,000 individual loans and achieved a total value of just under \$600,000 to women participants in the Credit with Education Project as has already been mentioned. There was however no indication however of the proportion of the population who had no access to credit before the project started. Conversely, for the ENOWID credit project however, there were no data on the coverage area the population that had access to credit was not quantified, though it was indicated that 99 percent of borrowers had recorded improvements in their access to credit, while 30 percent of non borrowers indicated that their situation remained the same, and may disprove my hypothesis in this respect. Even though the Freedom from Hunger project did record a wider coverage area, it cannot be compared with the Bank Rakyat Unit-Desa Bank of Indonesia (BRI-UD). A study conducted revealed that the BRI-UD project recorded a remarkable coverage and outreach. According to the study report, the project served the entire rural sector, effectively covering the country; they had 700 branches countrywide serving 2.1 million borrowers, and give about 160,000 loans per month. The project had also served a section of poor clients measuring up the number of Indonesians in poverty and had been sustainable over time. Micro- enterprise schemes in Ghana need to emulate such remarkable success elements in micro financing.

However the quality of life of the participants in the BRI-UD project was not indicated.

Economic Impact

The credit intervention projects under study also revealed positive impacts on the incomes of borrowers. The Freedom from Hunger Project with credit and education as its component recorded the most direct economic impact. The research report indicated that greater number of participants (58 percent) were self-employed compared with (38 percent) of non-participants, with those in control communities recording 50 percent.

Also the loans available to the participants combined with education greatly influenced their type of economic venture and also enabled participants to expand their enterprises and operate them more profitably. Also earnings and profit from non-farm income generating activities had also increased as already discussed. A great majority of participants over 90 percent reported that their incomes had increased when they joined this credit program. They explained that they have been able to greatly expand their economic ventures due to the credit available to them. Those who had before the project lacked working capital now had capital available to them. 36 percent of participants also indicated that they were no longer obtaining inputs on credit as they used to. However according to the report, some participants lamented that the loans they received was not

enough to finance a scale of other activities. This portion of participants was not quantified in the report. Nevertheless, this portrays a vivid picture of a success story, where the aim of micro-finance is to improve income levels and subsequently the standard of living and quality of life of participants.

The ENOWID project also revealed great impact of the credit project on the incomes of borrowers compared with that of non-borrowers. 79 percent of project participants indicated that their current levels of income had improved, with 87 percent of them attributing the improvement to the project. Like the Freedom from Hunger Project in this paper, this gives a more vivid picture of observable impact of credit on the incomes of the rural poor due the element of the control groups in these studies (non participants in ENOWID). This is because many other impact studies omit the element of control groups in their research surveys.

Social Impact

This study indicates improvements in the standards of living of the rural poor upon having had access to credit. This trend was more vivid in the project that introduced credit with other basic social services. Both the ENOWID and FRH credit projects

revealed tremendous improvements in the standards of living in the lives of the rural poor compared with other sections of the population that had had no access to credit. The FFH project had non-formal health and nutrition education was then integrated into the credit delivery system which had a positive impact on the project and on participants' health and literacy. Exclusive breastfeeding practices among participants greatly improved according to the report, though majority of participants initially introduced water to their new born during their first week of birth, which could be attributed to participants conservative beliefs, however this greatly improved after the program has been introduced.

Empowerment was one of the major objectives of the FFH as well as for this study. According to the study, participants through interviews conducted took pride in the fact that they had become economically independent, which has had positive impact on their self confidence and decision making in the household, as well as other social networks in their communities. With FFH's nutrition intervention, women were now able to feed their families with more nutritious foods, invested in their children's education, taking control of their family's health and motivated each other to have a greater influence in their communities by joining groups and affiliations to other community associations.

Its also true of the BRI-UD project in Indonesia in terms of standards of living but the report also indicated that very few of the borrowers who had borrowed three or more times remained in poverty, it had also liberated millions of highly productive borrowers from poverty, by expanding their enterprises. In terms of some indicators of improvements in standards of living for example, health, education and training, both the FFH and ENOWID projects did record improvements in the standards of living of rural borrowers unlike the BRI-UD project which had no records on living standards. There is however the possibility for improvements in living standards since a section of borrowers was liberated from poverty thus crossing the poverty line.

In terms of empowerment, social and economic, all the projects recorded some amount of improvement in the empowerment of rural women, with the exception of the BRI-UD project, which recorded no data on the extent of empowerment. The BRI-UD project in the course of my discussion was referred and compared with the other two projects under this study because some projects in Ghana tend to focus solely on the urban poor and also lack adequate data on empowerment and living standards which are very important success indicators.

At a glance, from the various impact study reports it is obvious that micro enterprise credit schemes improves the social and economic well being of participants/borrowers. However, how progressive a credit project has been cannot be measured by the progress of a minute portion of poor folks in a community, but rather a majority of them, and its continued expansion and outreach overtime.

Also, evidence of sustained income levels, which will have other ripple effects on other social indicators. Not losing sight of the cost effectiveness of the project itself and its ability to cover larger aspects of administrative costs with interest rates charged, and encouraging a large percentage of savings as much as possible. This is where many micro enterprise projects fall short.

The ENOWID project for instance though recorded some observable amount of success only benefited a minute sample of the population of the entire community, thus exhibits deficiencies in outreach. The FFH project according to the survey report over emphasized its large converge (outreach) without focusing on inherent problems. Interest rates charged may have been too high for very poor borrowers thus some of the participants stating that they still obtained inputs on credit basis, meaning that they

lacked adequate working capital. Another study should have been conducted assessing whether this category have had access to credit which has improved life styles. It is likely that the very poor may have been the ones that still obtained inputs on credit.

CHAPTER FIVE

CONCLUSION

The role of the Rural Informal Sector in the contribution to employment creation and better standards of living in Ghana cannot be underestimated.

However, in spite of Ghana's achievements under the Economic Recovery Programme (1983), poverty is still a social threat to the survival of majority of the rural folks.

Poverty alleviation has, therefore, become a cardinal focus of the governments of the Developing and Least Developed Countries.

Furthermore, the failure of the formal financial sector to adequately address the financial needs of rural Micro- enterprises has resulted in the recognition of Micro-Finance as a means of alleviating poverty.

In this regard suffice it to say that the emergence of micro-finance schemes in Ghana has had a significant contribution to the development of the rural informal sector of the Ghanaian economy. The two projects analyzed and evaluated in this thesis, to some extent, attempted to target the poor and the deprived communities in Ghana. The empowerment of women was mostly emphasized.

Economically, access to micro-credit support schemes has improved the investment opportunities and stabilized the incomes of the target beneficiaries. Poverty level among the rural women, to a large extent, has been reduced through employment generation.

Socially, the intervention of Micro- finance Projects has invaluablely increased women's independence. They are able to make independent and joint decisions concerning the domestic needs of the households. The standard of living of the beneficiary households has improved. They now have the ability to improve the nutritional and health status of their households, educate their children and improve their purchasing power through the additional income generated from the schemes.

Loans available to the beneficiaries combined with education have enabled them to expand their enterprises, leading to profitability and viability.

On empowerment, majority of women have become economically independent and this has had a positive impact on their self-confidence, decision making in the households and social networks in their communities.

With the timely intervention of the Freedom From Hunger Project, women are now able to feed their families with more nutritious foods invest in their children's education and

control their families' health needs.

IMPLEMENTATION DIFFICIENCIES IN MICRO-ENTERPRISE CREDIT

The economic and social environments in the rural informal sectors in Ghana are not suitable for credit co-operation. This is, perhaps, because there was already a well-established traditional informal money lending Schemes and that the rural informal sectors in Ghana were not suited to the discipline of Finance.

Looking at the relationship between Macro- Economic growth, vibrant, active and widespread Micro-Credit, there is no evidence that Micro-Credit Schemes are sufficient enough to improve measurably, the Rural Informal Sector and for that matter the Standard of living of the target beneficiaries.

Given the economic and social influences on the rural folks, knowledge about micro-credit is not sufficient to predict an outcome. The two samples studied span the range of growth rates in the rural informal sector in the period studied. From the above discussions, the level of micro-credit "success" does not seem to be correlated with those growth rates.

In the light of the above analysis, the writer experienced a bit of difficulty verifying the hypothesis. This is because the various projects studied exhibited unique characteristics.

They had varying areas of coverage and target groups. Though this work targeted the rural vulnerable and the poorest section of the population, it was realized that the Freedom From Hunger Project failed somehow, to target the poorest. In this regard suggesting which project was the most successful is beyond the scope of this work. Needless to say, the findings from the ENOWID and Freedom From Hunger projects support the assertion that the Micro-credit schemes have, to a greater extent, improved the lives of the rural people and does not diminish the importance of Micro-Credit's Poverty relief function.

Moreover, there was lack of adequate data before and after the studies. This difficulty made a comprehensive assessment of micro-credit scheme's impact on the lives of the borrowers in relation to non-participants and other communities much difficult to achieve. Furthermore, the usage of income, as a major indicator of impact could be misleading. For instance, in the FFH projects, women's calculation of profit did not correspond to specific business and accounting definitions. This is because income is normally confused with cash flow and leads to measurement problems. Though Micro-enterprises generate cash, there could be possibilities of high inherent costs, which occur when business, and family finances are fused together.

Finally, the usage of high repayment rates as a measure of success could also be misleading. This because borrowers may not repay loans but will invest the funds in other productive ventures with long gestation periods, while other borrowers who repay loans might not generate any productive income. Most NGOs implementing micro-credit finance projects aim at the socio- economic empowerment of women. However, this objective is faced with difficulty. This is because of the marginalized-traditional status of rural women in the Sub-Saharan African Region. Women are mostly seen as hewers of wood and carriers of water, housekeepers and child bearers. Also, because of the high rate of illiteracy and the land tenure system (land is communally owned) in most rural communities, no one person can lay claim to a particular piece of land for agricultural purposes. Failure to pay heed to traditional norms could lead to land litigations.

Lopez and March, 1990, in a study by the Gender and Development Unit of Oxfam concluded “Programmes should take more holistic approach” This study noted,” Many of the reasons for this high level of failure lie in the underlying problem of women’s poor status, low self-esteem and position of power, extremely high workload and multiple responsibilities. Experience has shown that it is necessary to tackle these

aspects in tandem if the income generation side, of projects are to contribute meaningfully to women's daily struggle and the strategic aims of empowerment”

POLICY RECOMMENDATIONS

The writer appreciates the fact that Donor Support with regard to Micro –Finance is indispensable to the growth of many Micro enterprises. However, many of these micro enterprises are over dependent on donor funds to support them and thus, hindering the micro finance institutions to reach as many clients as possible. It is, therefore, prudent that micro enterprises reduce their over dependence on donors and be self dependent through hard work and financial discipline in order to be profitable, survive and reduce donor fatigue.

Again, before any micro enterprise project is undertaken in any area, a comprehensive baseline survey should be conducted. This would serve as a database for any further project evaluation and impact assessment. Though it is recommended that NGOs who implement micro enterprise projects should not overemphasize repayment rates as indicators of success, the writer recommends that proper borrower screening should be

conducted before a grant is given. This would go a long way to reduce default rates and adverse selection, which leads to moral hazards.

Credit provision and access are crucial to low- income earning women. It is therefore, important to provide access to these services, especially as part of the overall mission of the micro finance credit schemes. However, while the credit programme would become self –sustaining overtime (as the programme grows and greater efficiency realized), non-financial services would require support for a long time.

Moreover, the Best –Practice Learning and Market Linkages Programmes should be developed to assist successful women entrepreneurs to act as mentors for less successful women. These innovations represent a more successful approach than conventional training programmes for illiterate and semi- literate women.

Perhaps, there should be the creation of Credit Awareness, development of a business-like attitude, reducing the fear of moral hazard for mutual benefit to all the parties to Micro-enterprises Schemes in Ghana.

The writer also recommends the introduction of flexibility into, and changes made to group size, loan repayment period and review process and the frequency of savings transactions. Micro- credit Schemes should strive to be innovative, making modifications based on an analysis of feedback from clients and the Socio-economic

environment. In this regard, the relationship with the formal financial institutions is crucial as a basis for local mobilization of resources. Micro-Enterprises Credit Schemes would continue to require an infusion of funds from the outside, and Commercial Banks would remain an important alliance.

Finally, it could be deduced from the studies that in spite of the problems faced in the wake of the implementation of the Micro-Enterprises Credit schemes in the rural informal sectors in Ghana to raise the standard of living, such programmes, to a greater extent contribute to the relief from poverty and misery among the target beneficiaries.

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