

**Access to Micro-finance and IMT promotion: An integrated approach to poverty reduction in rural Ghana.**

An internship paper prepared for the Department of Anthropology,  
University of Durham, UK.

By Sylvia B. Quansah (University of Ghana, Legon)

Supervisor: Dr. Gina Porter

## 1.0 Introduction

In Ghana agriculture contributes 45% (MOFA, 1998) to the Gross Domestic Product (GDP) and involves over 70% of the labour force of the rural poor. Like most of the world's developing countries, poverty in Ghana is a rural phenomenon.

Rural economies are usually characterised by the following: low per capita income; rapid urban migration; low level of infrastructure; ineffective and inefficient production and distribution; low level of industrialization; under employment and low productivity etc.

A working definition adopted by ISSER (1979) states that poverty is the lack of access to basic necessities of life including food, clothing and shelter. By extension, poverty is attributed to the lack of access to both economic and social services. Low productivity in agriculture resulting in low incomes, and poor access to social infrastructure could well be assumed to be some of the major causes of poverty among rural people in Ghana. Attempts to address poverty among rural households in Ghana should therefore focus on raising average income levels through income generating activities and increased agricultural production, and improved access to social services such as market, schools, clinics, etc.

Over the last decade there has been a concerted effort by the Government, its bilateral and multilateral development partners, NGOs, and individual benefactors to address the poverty situation in the country. The interventions have been quite diverse including: the setting up of micro-finance institutions (MFIs), to provide financial services to low income people, the provision of infrastructure such as roads, hospitals, schools, markets, etc. However, it is interesting to note that these interventions have not exhibited the expected impact on the livelihoods of the rural poor. This is at least in part due to the fact that the various interventions are not well co-ordinated to specifically target the rural poor (very poor) who rely on agriculture and its related enterprises for their livelihood.

The poverty situation in Ghana is multi-faceted and therefore requires multidisciplinary approach to its solution. This therefore, calls for an integrated approach to increasing both rural households' income through the provision of financial services to enhance production, and easy and timely access to social services through the provision of reasonably reliable and economic means of transport.

## **2.0 Micro-Finance Interventions to address low incomes of rural households.**

Rural households in Ghana are engaged in a wide variety of economic activities including: direct agricultural production (crops and livestock), agro-business such as processing, sale of agro products, and other non-agricultural enterprises such as pottery, textiles, petty trading, etc, which require the support of micro-finance. Women are mostly involved in non-agricultural enterprises due to the fact that society usually confers on them only the use right for fertile agricultural lands. As a result of some of these societal norms women are considered as the most vulnerable group as far as poverty is concerned.

Micro-finance institutions and their donors place a strong emphasis on gender issues as they recognise that the constraints that limit the poor's access to financial services are particularly harsh on women. MFIs have also come to prefer women clients because they realise their services appear to have more impact on women than on men. Several studies have revealed that women invest their profits in improving the welfare of their families. This is however contrary to that of their male counterparts (Webster and Fidler, 1996).

### **2.1 Types of Micro-finance Institutions in Ghana**

Formal, semi-formal and informal institutions practice micro-finance in Ghana. Formal institutions include public and private development banks, commercial banks, rural banks and non-bank financial institutions. Semi-formal institutions include NGOs, credit unions and some self-help groups. Informal financial institutions include moneylenders, rotating savings and credit associations (RoSCA), door-to-door deposit collectors, self-help groups, friends and relatives.

### **2.2 Credit programme of MFIs in Ghana**

Credit services provided by MFIs include working capital and investment capital. Most credit programmes of MFIs charge subsidized interest rates. However studies have revealed that charging commercial interest rates are beneficial in several ways. Some of the benefits as listed by Adams et al (1984) are as follows: it strongly encourages graduation to formal credit institutions that charge lower interest rates; it prevents misallocation of production factors such as excessive use of capital; it encourages more careful screening of borrowers; it encourages better repayment morale; it promotes self-sufficiency of the institutions; it

increases the marginal productivity of capital by fostering allocation of resources to higher yield activities; and it enables an effective screening of wealthier entrepreneurs who have access to formal credit.

Recent study of some MFIs in Ghana revealed that the average interest rate (29 %) charged was substantially lower than the average commercial rate (35 %). Whereas some institutions were charging as low as 15% (lower than the 22% interest rate in district assembly poverty reduction programmes) others were charging as much as 42%. Those who charged higher interest rate were actually found to be more financially sustainable. Most MFIs were thus found to be donor dependent but somehow they were able to cover operating expenses. Perhaps this explains why they have been able to reach the poor on quite a small scale (Quansah, 2002).

In terms of repayments, studies have shown that frequent repayment of smaller amounts is appropriate for low-income clients because of high consumption pressures and lack of safekeeping facilities. However, it is appropriate to have flexible repayment terms granted on an individual basis to match the seasonal pattern and production cycle of an activity.

The study of some MFIs in Ghana such as ENOWID, WWBG, GAWE, CUA, NBSSI, Citi Savings and Loans Company, and others revealed that repayment rates range from 70 percent to 99 percent (Quansah, 2002).

Seibel (1989), identifies savings services (mobilisation) as an important feature that enhances the success of a lending programme for several reasons: it provides the basis for a sound financial institution; increases the capital of a loan fund; discourages haphazard use of loan funds, risky business ventures and poor repayment morale; establishes a savings habit as a psychological basis for investment behaviour; helps remove the capital constraints for borrowers, gives them more security (emergency fund) and a greater sense of self-esteem; and it effectively enforces the self-help principle.

MFIs may provide both savings and credit services as a dual-purpose financial institution, or may make loan disbursements conditional on meeting specified savings requirements.

Studies of some MFIs in Ghana revealed that although MFIs were not explicit on collateral as a requirement for accessing credit, savings and group guarantees were mostly preferred (Quansah, 2002).

### 2.3 Benefits of micro-finance services

According to Webster and Fidler (1996), virtually all the impact studies to date show that clients of MFIs have higher and more stable incomes than they did prior to their participation. These studies also identified social benefits that women gain from participating in micro-finance programmes: they feel less marginalized; have higher aspirations for their children's education and future; are less likely to marry at an early age; improve the nutritional intake of their families, etc.

Further benefits from MFIs include employment creation, business expansion and diversification, skills acquisition (improvements in human capital), improved marketing, etc. Some of these benefits have been achieved due to the fact that most MFIs in recent times have found it important to provide some technical assistance in addition to the financial services they provide. Observers believe that poorly developed business skills are a binding constraint to enterprise growth, even more than lack of access to credit in many cases (Webster and Fidler). When training therefore accompanies the provision of micro-loans entrepreneurs are able to optimise their use of loan funds.

Studies have shown that the benefits of micro-finance programs accrue primarily to the moderate poor and the vulnerable non-poor. Perhaps a means by which the very poor, those who have no assets and experience food insecurity can be reached is by having micro-finance used in conjunction with other poverty reduction schemes such as the IMT promotion scheme.

### **3.0 Intermediate Means of Transport promotion and poverty reduction**

Rural areas in Ghana continue to be constrained by a number of factors including inadequate physical infrastructure (roads), poor transport availability and unreliability, as well as the high cost of conventional transport. There is also lack of appropriate intermediate rural transport to lessen their burdens. These transport constraints combined with low productivity have serious effects such as high post-harvest losses and food insecurity for many poor households. In addition, access to markets is limited making it impossible for livelihoods to be improved through increased incomes.

Given the strong correlation between the poor state of rural infrastructure and rural poverty, improving basic rural infrastructure such as water supply, village post-harvest and transport infrastructure, etc, which the rural poor depend on, can act as a catalyst in accelerating rural development. But unfortunately, in the last few decades, there has been over-concentration of Government's effort on improving road networks as the sole approach to transport improvement in the country. However, studies in a variety of disciplines have indicated that paved roads, which hitherto have been the central focus of transport models, have only a limited impact on the majority of people living in rural areas. Motorised transport is often unable to pass along the most heavily used routes, and in any case, such transport services tend to be infrequent and unreliable. Furthermore, the effects of inefficient transport systems in rural parts of Africa, particularly Ghana (which rely mostly on non-motorised transport in its most basic form), are manifested in a lack of access to market, education and health services, low agricultural production and household trip patterns.

According to Boateng (2002), the travel purposes of rural households are mainly associated with domestic, on-farm or intra-village travel needs including water collection, firewood collection, visit to the grinding mill, movement of farm inputs and harvested produce. They occasionally travel outside the village to access health services, education, shopping, marketing of crops, and visits to social functions. The study also revealed that rural domestic travel and transport needs in terms of distances are predominantly relatively short, and range from less than 1 km to 15 km and such trips mostly involve walking and head loading, which place a greater burden on women and children.

The use of IMT modes such as the power tiller, bicycle, bicycle-trailer, animal-drawn cart, tricycle, motorcycle, power tiller with trailer, push truck or trolley, and two-wheel hand cart, etc, could therefore best address the travel and transport burden confronting off-road rural communities in Ghana.

### 3.1 Some Selected IMT interventions in Ghana

#### 3.1.1 DFID Action Research Project in Central Region

The Action Research Project, a post harvest intervention project, aimed to develop transport strategies for improving farm to market access in off-road villages in the central region of Ghana, specifically Gomoa and

Assin districts. Agriculture productivity in these areas was also expected to increase thereby improving food security of poor households.

The target groups were mostly women since women usually undertake most of the produce marketing in Ghana and their only means of transport is often head loading. The introduction of IMTs in these areas was therefore to alleviate women's transport burden, which would go a long way to improve their living standards.

Some challenges/lessons from the Action Research Project

1. The promotion of IMTs in coastal Ghana has met with difficulties including high capital cost, low load capacity, weak construction, poor state of paths, poor local maintenance facilities, unsuitable environment, cultural perceptions and lack of credit schemes
2. Capital unavailability appears to be the most serious problem hindering the progress of IMT adoption. Consequently, it has made it impossible for the project to recover the purchasing cost of IMTs given out to beneficiaries on credit. Although beneficiaries were to make regular payments to rural banks, the recovery rate (which is long overdue) is just about 30 percent.
3. The use of IMTs so far by women is particularly limited due to the fact that women have little or no access to credit thus making it impossible for them to purchase IMTs
4. In off-road villages transport services are generally poor but GPRTU still tries to stop IMT competition.
5. With the exception of the power tiller, IMT modes were loaned to individuals because of lack of strong pre-existing groups.

### 3.1.2 The Village Infrastructure Project

In recognition of the vital role agriculture plays in Ghana's economy, the Ministry of Food and Agriculture (MOFA) initiated the pilot phase of the rural transport infrastructure sub-project (one of the components of the VIP). The key objective of the pilot project was to demonstrate the potential and usefulness of Intermediate Means of Transport (IMT) in alleviating the rural travel and transport burden on off-road farming communities within the four ecological zones of Ghana. It was in this direction that the Rural Infrastructure Coordinating Unit (RICU) of the

VIP, in 1997 procured the service of an NGO's service for a period of 18-months to collaborate with some selected district assemblies within four regions (Greater Accra, Ashanti, Brong-Ahafo, and Northern) which represent the major ecologies of Ghana to promote three IMT modes (power tiller, bicycle and trailer, and donkey-drawn cart).

Some challenges/lessons from the VIP project

1. There were no reported cultural barriers to adoption of any of the IMT modes.
2. Lack of capital, poor road network, and inadequate knowledge about the equipment maintenance were the important limitations that were cited by the beneficiaries.
3. The donkey-drawn cart technology was successfully introduced to hither to "no go" areas like Ashanti and Brong-Ahafo regions, which represent the forest and transitional zones of Ghana respectively. However, farmers prefer the double axle cart to single axle cart.
4. The power tiller remained the most preferred IMT mode in all the pilot locations.
5. The high level of success that was achieved regarding the promotion of the IMT modes in the pilot was partly due to the strong co-operation and collaboration that existed among the key players: these included NGOs, the private sector, and the public sector including local government officials.

### 3.2 Benefits of IMTs

IMTs seem appropriate for off-road villages in Ghana since many types of IMTs can be conveniently used on village paths which are usually easily maintained by villagers themselves. Other advantages associated with the use of IMTs include the following: low purchase cost compared to conventional transport; low maintenance cost; ability to be operated on poor and narrow paths; and suitability for small to medium loads (Porter, 2002).

The use of IMTs can have a positive impact on beneficiaries and the economy as a whole. These include the following: increases food production; generates income; increases access to market; increases efficiency; improves health, particularly of women due to reallocation of



head load to IMTs; saves time for other important activities like housework and leisure; and facilitates personal travel (Porter, 2002).

#### **4.0 Factors affecting IMT loan repayment in Ghana, and strategies to enhance recovery**

The factors that affect IMT loan repayment in Ghana include among other things:

- Social or attitudinal factors
- Poor group formation, dynamics and cohesion
- Location of the IMT modes
- Economic activities of the beneficiaries
- Lack of repayment incentives
- Attitude of bank officers
- Economic conditions.

##### Social or attitudinal factors

A majority of the rural and urban society in Ghana believe that loans that are directly managed by NGOs or the Government (rural banks) are gifts and need not be paid back. This notion could only be changed through functional education. Future IMT projects would have to embark upon an effective information and education campaign (IEC), particularly on the responsibility of the borrower and the nature of the credit scheme, during the animation and sensitization stage of the project implementation.

##### Poor group formation, dynamics and cohesion

Experience from the IMT pilot activities of the VIP has shown that group formation, dynamics and cohesion could well facilitate the repayment rate of IMT loans. Groups formed by farmers themselves are found to be more successful in terms of group dynamics and cohesion than those formed by outsiders (state officials, researchers etc.). Strong group formation, dynamics and cohesion could be a safety net for effective recovery of loans. Future IMT promotion should therefore pay particular attention to group formation since it could further ensure equitable distribution of the IMT services among members and also ensure transparency and accountability in their operations.

### Location of the IMT modes

One of the most important factors worth considering when selecting groups or beneficiaries for allocation of any of the IMT modes particularly the power tiller, is the supply of conventional transport services to that particular village and other satellite villages nearby. The IMTs are a poor competitor in terms of efficiency as compared to conventional transport. In other words, villages with poor supply of conventional transport services could lead to a high demand for IMT services and hence increase the revenue to be generated by the beneficiaries. Poor revenue generation consequently results in low repayment rate.

### Economic activities of beneficiaries

Usually the beneficiaries' investment decision on IMTs is closely tied to their economic activities. Most of these beneficiaries are small-scale food producers and they are occasionally confronted with problems such as low prices, lack of or inadequate market for their produce, poor crop yield as a result of bad weather, low soil fertility, etc. The low returns from the economic activities of the beneficiaries could also lead to low repayment rates. In addition, if borrowers are at a very low level of subsistence, any additional income generated through IMT use is likely to be appropriated for basic needs. Farming operations and other economic activities should therefore be given the needed attention in future projects. ie, integrated projects are preferable to pure IMT projects.

### Lack of repayment incentives

Lack of repayment incentives may affect loan repayment rates. The introduction of repayment incentives (such as receiving a loan in cash after full payment of the IMT mode) in future would help improve repayment rate

### Attitude of bank officers

Field officers are the cutting edge of any rural credit programme. It is their perception, involvement, and efficiency that, to a large extent, determine the success of credit programmes. Issues relating to their selection, responsibility, motivation, reward etc needs to be tackled effectively to improve their level of performance.

## Economic conditions

High inflationary conditions during the repayment period certainly affected repayment in both projects. The recent improvement of inflation rate could make a difference to future programmes if stability is maintained.

## 5.0 Conclusion and Recommendations

Considering the low-income levels of rural households who are predominantly subsistence farmers, they could hardly afford any investment in conventional vehicles. The use of IMT modes has proved to be one of the few alternatives available to the rural poor, especially households in off-road villages in Ghana. However, access to credit remains a major hindrance. It would therefore be appropriate to have micro-finance and IMT promotions linked up in a co-ordinated fashion so that poverty reduction interventions do not remain elusive.

Recommendations:

- A. Linkages between micro-finance and IMT promotion.
    - Linking formal financial institutions - rural banks with IMTs
    - Linking semi-formal financial institutions - NGOs with IMTs
    - Linking informal financial institutions – deposit collectors and/or RoSCA with IMTs
  - B. Further suggestions
- A. Linkages between micro-finance and IMT promotion

Linking rural banks with IMT promotion

1. Rural bank involvement with IMTs promotion in the Action Research project has so far as not been encouraging. However, these rural banks have the potential and as such putting some measures in place could ensure more efficiency on their part.

- New arrangements could be made with the bank with regards to the officer charged with the collection of money. Officers selected should have genuine interest, be responsible, have a well defined work plan, motivated by a system in place such as having transportation catered for, and could receive a kind of reward in the

form of a commission. For instance, officers could have 5% commission on amount collected at the end of every quarter. This would also influence the frequency of visits to collection points. It is also important that there be a system of supervision in place.

- Rural banks need a lot of capacity building to enable them to improve upon their operations.
- Loan repayment pattern would have to be synchronised with the generation of cash flow from activities (the use of IMTs). Weekly repayments may seem appropriate for those who use particular types of IMTs such as the push trucks, handcarts, trailers, etc. The weekly intervals may also sound convenient to the bank agent.
- Repayment incentives may be used to improve repayment rates (refer to page 9).

2. On the other hand rural banks may be more committed when they are made partners in one way or another. Rural banks could take up the responsibility of providing credit to beneficiaries or the rural people (which includes among others the purpose for which they were set up). Unfortunately, rural banks have focussed on salaried people whose loans can be retrieved directly by the bank.

- The problem may be with collateral, if it is a requirement for a loan. Usually savings and/or group guarantees (a social collateral) are accepted as loan requirement by the bank. But the question probably would be the possibility of beneficiaries having any form of savings or the possibility of having group lending work in these areas. Informal savings may be found useful in this case.
- Loans may have to be issued in kind (IMTs modes). Credit in kind reduces fungibility. This requires satisfactory arrangements with suppliers. Although this may be seen as a directed loan, it is only to enhance the promotion of the IMTs in this initial stage until it adoption is accepted.

It must however be noted that rural banks may not find it easy to practice directed credit schemes. Directed credit schemes are usually associated with donor funding or NGOs.

## Linking NGOs with IMT promotion

1. NGOs involved in micro-finance could be partnered with IMT promotions as the poor need credit assistance to be able to enjoy the full benefits of IMTs. It could take the form similar to that by rural banks (discussed above).
2. Alternatively, NGOs may adopt the promotion of IMTs as part of their broader poverty-alleviation programme for especially the poor who live at off-road villages. This would probably let them increase their outreach to the very poor who need their services but are somehow left out. If these people can have some access to credit coupled with easy access to farms and market they would be able to have a better livelihood through increased productivity and food security.

## Linking deposit collectors and/or RoSCA with IMT promotion

Poor women often make use of informal savings to smooth consumption, finance their businesses, to cater for emergencies, etc. They usually pay others to collect and keep their savings referred to as door-to-door deposit collectors. Deposit collectors visit members daily, often at their doorsteps and / or their market stall, to take fixed amounts. Market women in Ghana for example, make deposits for a month (30 days) and they get back contribution for 28 days in bulk. During the month, the collector usually keeps the deposits in a bank or lends them out informally.

Like deposit collectors, RoSCA (merry-go-round) are common among women. RoSCA are small groups who meet to make fixed contributions at intervals. For example, ten people might contribute a fixed amount each every month. By turns, each member gets the pool (a loan), which is subsequently repaid in the form of the weekly or monthly contributions. A second cycle begins when each member has received his turn.

The two basic strengths of these two types of informal savings are that they offer low transaction costs and ensures a savings discipline.

In terms of safety, it is not uncommon for door-to-door deposit collectors to abscond with the savings of their clients. Likewise, people who have already received a RoSCA pool may default on their debt by stopping contributions.

Perhaps, mobilising savings for the payment of IMTs loans through such informal systems could achieve the desired results.

- Beneficiaries could form effective groups, and from each group they select a trust worthy person charged with deposit collection. The formation of smaller groups (not exceeding 8 members) would minimise losses in case of any absconding. Group members must not be related.
- Each group could have an account with the bank so that deposits collected (fixed amounts) daily can be sent to the bank, probably at the end of the week. Repayments could also be made at weekly meetings. This would enhance mutual solidarity. Two or three of the members of the group would be signatories to the account.
- Members or beneficiaries can collect their bulk sums at the end of the month to make part payments of already purchased IMTs or may hold on and continue with savings until they save enough to purchase (to cover a part payment of) an IMT mode. Savings could also be used as capitalisation for an income generating activities when IMTs have been obtained.
- Similarly, RoSCA savings can be kept at the bank and redrawn as and when needed according to the rules.
- Savings in both cases could later be used as collateral for loans from the rural bank to enhance other economic activities.

(NGOs can replace rural banks in all cases).

#### B. Further suggestions

1. A last alternative may be to seize the equipment from the defaulters and reallocate to those who are ready to buy but at a reduced cost. This may have a 50-50 chance.
2. The debt of the individual could be interpreted to him or her in terms of number of bags of maize, cassava, or of the crops they grow so that they could pay in lieu of produce and a market be found to liquidate it. However, this may cause some inconvenience.

In the future:

3. Project should require about 20-30 percent as initial payments for group ownership and perhaps 40-50 percent for individual ownership.

Beneficiaries may meet such requirements by accumulating funds through informal savings.

4. Groups may be required to own a common property resource such as a five acre-farm of any high value food crop to qualify for IMTs like power tiller or tricycle.

5. The project could invest in a set of IMT modes for the demonstration period and then allow the potential beneficiaries ample time to make the decision to buy the IMTs or not. The project could then link those who want to purchase any of the IMTs to the local financial institution for credit either at a concessionary rate or at a commercial rate.

6. Finally but not the least, the potential beneficiaries should be sensitised to identify their own transport problems and come up with solutions.

## References

1. Adams, D.W.; Graham, D.H.; Von Pischke, J.D (eds): “Undermining Rural Development with Cheap Credit.” Boulder and London: Westview press, 1984
2. Boateng, F.K.: “The Role of Intermediate Means of Transport (IMT) Modes in the Alleviation of Off-road Transport Constraints in Ghana: A Case Study of the Village Infrastructure Project (VIP).” Research paper, 2002
3. Porter, Gina: “Intermediate Means of Transport: A Review Paper with Special Reference to Ghana.” February 2002
4. Quansah, S.B.: “The Role of Micro-finance Institutions in the Promotion of Micro-enterprises in Ghana: Challenges and the Way Forward.” Research paper, 2002
5. Seibel, H.D.: “Linking Informal and Formal Financial Institutions in Africa and Asia In Micro-enterprises in Developing Countries.” Intermediate Technology Publications, 1989
6. Webster, Leila and Fidler, Peter (eds): “Informal Sector and Micro-finance in West Africa.” World Bank Regional and Sectoral Studies, 1996

