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Microfinance in Ghana: Sustainable Solutions for Poverty Eradication

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Introduction

Since Ghana gained its independence in 1957, its leaders have struggled to utilize development tactics that are both sustainable and address the most important economic issues facing a developing country, such as poverty, infrastructure building, inflation, and macroeconomic stability. Balancing these priorities has proven difficult for the various Ghanaian regimes that have ruled the country since independence. The complexities facing a developing country with a fragile economy often require difficult decisions that prove painful for the poorest and most marginalized individuals in society. Often, the poor must sacrifice subsidized food and other government services as economic reform programs aimed at macroeconomic stabilization are implemented. Efforts to cut down on inflation, reduce government ownership, and decrease tariffs and subsidies can help generate economic growth and create a healthier environment for trade and the free movement of capital. However, many of these structural adjustment programs and economic reform movements have been woefully inadequate in addressing the problems of deep poverty that still afflict rural areas throughout the nation. In fact, evidence indicates that many of these development strategies actually increase the gap between rich and poor and push some groups into deeper poverty.

Therefore, those in the development field have attempted to find strategies that can effectively address poverty at the grassroots level and improve the quality of life for the poorest and most marginalized in the developing world. Microfinance has risen to the vanguard as an effective strategy to alleviate poverty. When Muhammad Yunus, an economics professor, gave a group of women in rural Bangladesh a small loan to support their basket weaving business in 1974, he effectively began a revolution in the development field. Prior to the founding of Yunus' Grameen Bank, most mainstream banks in the developing world, including Ghana's, would not go near poor, small-scale borrowers, because they were considered high-risk clients who were liable to default on their loans. For this reason, most poor rural communities had very limited access to capital, relying on local lenders who charged exorbitant interest rates. Microfinance provides credit to people who have been overlooked by the mainstream banking industry.

Microfinance institutions, when properly run, have proven to be remarkably effective in raising the quality of life for indigent people throughout the world. Ghana is no exception. These programs often specifically target the most impoverished individuals in the country. The success of Microfinance Institutions (MFIs) can be found in the desire of borrowers to attain the basic necessities that we consider fundamental to human survival, such as shelter, adequate nutrition, and proper clothing. That they put their loans to good use is indicative in the startlingly high repayment rates that many MFIs report. For many clients, micro-credit resembles the only hope to rise up from the extreme poverty that has defined their lives.

This paper intends to analyze the impact of microfinance institutions in Ghana. The first section of the paper will paint a picture of the recent macroeconomic situation in Ghana. Stagnant growth, high unemployment rates, and wide-scale poverty have plagued Ghana's economy in its recent history. This section will also deal with the shortcomings of economic programs instituted by the Ghanaian government to solve its economic woes, along with the World Bank and International Monetary Fund (IMF). These efforts to stabilize the Ghanaian economy and attract investment have often had little effect on the poorest communities, and at their worst have exacerbated the substandard living conditions of the most marginalized. Additionally, under these conditions the gap between the richest and the poorest has increased greatly. The poor rural communities are on the outside looking in as the privileged in cities such as Accra and Kumasi enjoy the profits of increased international trade and open markets. These inequities have haunted Ghana since independence. Massive debt to the World Bank and the IMF has also left the Ghanaian economy hamstrung in its economic decisions and left Ghana in a cycle of poverty and dependency. Microfinance, while it is not the overriding solution to all of these problems, could help to balance these income inequalities and foster further economic growth.

The second section will examine the quantitative economic impact of MFIs in reducing poverty throughout Ghana. Several institutions will be examined, including the Sinapi Aba Trust, the Lower Pra Rural Bank, and the partnerships between traditional susu collectors and mainstream banks such as Citi and Barclay's. The methods of evaluating the impacts of each of these institutions will be analyzed, including possible flaws and inconsistencies. In addition, the structures of the MFIs studied will be dissected, in order to examine the most effective lending methods that stimulate the best results. The group lending schemes that are used by most MFIs, including those studied in this paper, will be examined. The profitability and sustainability of these institutions will be discussed as well, with a particular focus on loan repayment rates. MFIs must be financially sound in order to provide consistent service to their clients. Remarkably, many MFIs record incredibly high repayment rates, often higher than loan repayment rates for institutions that only lend to supposedly less risky clients who provide collateral.

Particular attention will be also paid to the economic impact for women in Ghana. It is important to note that women are often the recipients of micro-credit, and in the case of some institutions the vast majority of borrowers are women. Two thirds of the poorest people in the world are women, so it is imperative for microfinance to reach women if it is truly going to attack poverty.

The third section of the paper will delve into the more far-reaching effects of microfinance, the most important being women's empowerment. Microfinance has the potential to do much more than simply provide economic benefits for its clients. For women, economic empowerment can lead to a greater voice in the household and community affairs. Tapping into the often dormant power of women can have great qualitative impacts for their communities. Additionally, the grassroots nature of microfinance makes it very flexible in pursuing community development goals that have an impact which extends beyond immediate economic gains. These qualities also make MFIs culturally adaptable, so it does not seem like an unwelcome, alien presence is invading communities in the form of microfinance. Making MFIs culturally compatible with and sensitive to the unique issues facing the communities served can further help to ensure their success and sustainability. Credit with Education programs combine microfinance with educational strategies meant to increase food security for the community and nutrition for young people. The prospects of using microfinance as a tool to provide well-rounded benefits to improve the lives of those living in rural communities seems very good, from the evidence gathered to this point. Clearly, from the perspective of women's empowerment, the benefits of microfinance are real and are changing their beneficiaries economically, psychologically, and socially for the better.

The final section will examine the possibilities of linking microfinance at the local, national, and international levels. The expansion of banking services to the poor can be achieved if organizations like the World Bank, along with the Ghanaian government, play an appropriate role providing logistical and financial support.

Microfinance is about more than providing banking services to the poor. MFIs have the potential to fundamentally alter the lives of the poorest and most overlooked members of Ghanaian society in a way that no government initiative or World Bank structural adjustment program has been able to. It is the belief of this writer that access to adequate food, shelter, and clean drinking water are basic human rights that no individual should be denied. Unfortunately, millions of people are denied these basic necessities today. If microfinance can help the impoverished improve living standards for themselves, it can be categorized as a qualified success as an innovation in development. This is not to say that microfinance can eradicate poverty and spur on economic development by itself. There is no doubt that sound governmental economic policies and intelligent leadership is needed to achieve these goals. But microfinance can certainly be a key component in the struggle to eradicate poverty and achieve sustainable economic development.

Failed Economic Policies, the World Bank, and the IMF

By the beginning of the 1980's, Ghana's economy was in shambles. Mismanagement under previous regimes and political instability led to dire economic conditions by 1983: an inflation rate of 123 percent, declining economic output, and a food shortage. Abject poverty was pervasive and endemic throughout the country, as millions struggled to feed themselves and their families. The country was at a low-point in 1983 when, facing a devastating drought, Nigeria expelled nearly a million Ghanaians living there, worsening the economic crisis within Ghana. The standard of living actually dropped between independence and the 1980s (Sowa 3). These backward steps can largely be attributed to years of political instability and governmental incompetence from independence in 1957 up until the 1980s. The culture of corruption and misuse of government funds was pervasive in those post-independence years. Opportunities to develop infrastructure and expand the economy were squandered during this vital period (Background Note- Ghana).

These issues led the Ghanaian government to take action and adopt a World Bank and IMF sponsored Structural Adjustment Program (SAP).The economic crisis made drastic measures necessary in order to prevent conditions from slipping entirely out of control. Several important policies were implemented in these adjustment years. Efforts towards macroeconomic stabilization, including fiscal, monetary, and exchange rate policies were employed. There was price liberalization and a restructuring of the public and financial sectors (Sowa 6). Under this program, 130 state-run businesses were privatized, tariff barriers were removed, and health care and education subsidies were eliminated (Ismi 16).

In its initial years, the structural adjustment program in Ghana seemed successful. The measures aimed at macroeconomic stabilization increased output. From 1984 to 1989, annual growth of about five percent per year was recorded. It must be noted however, that foreign aid also increased greatly during this period, distorting the actual figures (Sowa 6).

Unfortunately, many of the gains made in the 1980s were squandered in the 1990s. Inflation became a serious problem by 1995, reaching 70 percent. The efforts to curtail high inflation led to a hike in interest rates, which stifled growth. The private sector was essentially crowded out as the government took out more loans. Debt was also becoming a major obstacle to growth by this time. The focus on macroeconomic stabilization was unfavorable to economic growth (Sowa 6).

In 1999, the country faced yet another economic crisis. Government mismanagement, mainly fiscal indiscipline, and external shocks, including a decline in cocoa and gold prices, caused severe economic problems. Gold and cocoa are the staples of the Ghanaian export economy. A nation that mainly exports raw materials does not have control over international price fluctuations. As a result, the Ghanaian economy is extremely vulnerable to external shocks like those that occurred in 1999. Inflation was out of control and interest rates became incredibly high, stifling economic activity. These conditions led the government to borrow more, from both domestic and foreign sources. Soon, servicing the country's huge national debt became a top priority (Sowa 6-7).

In 2001, Ghana's national debt was about 124 percent of its GDP. This crippling debt made economic development very difficult, as much of the government's resources went to paying off external and domestic debt, with high interest. This hindered efforts at poverty alleviation, as money had to be diverted to service the debt. Thus, it is no surprise that the new government elected in 2000 joined the World Bank's Highly Indebted Poor Country (HIPC) program (Sowa 7).

Although the initial years of structural adjustment were successful in inducing some economic growth, the effects on poverty were, at best, mixed. Some would argue that the situation for Ghana's poor has remained the same, or even worsened. Ghana's external debt, much of it to the World Bank and IMF, was an unmanageable seven billion dollars in 1999. Under these conditions, Ghana's development and efforts to eradicate poverty were curtailed as the government fell into a cycle of debt and dependency. Revenue that could have been used for the above stated purpose was instead used to service the debt. (Ismi 16).

Before the structural adjustment program was implemented, the country was able to feed itself with its own rice. However, by the 1990s, Ghana became a net importer of rice because under the terms of SAP, the government was forced to cut subsidies to Ghanaian rice farmers. American rice, on the other hand, was subsidized, making it cheaper. As a result, American rice squeezed Ghanaian farmers out of the market.

In 1985, user fees for health care were introduced. This, combined with falling wages for many Ghanaians, reduced access to health care, especially for the poorest. User fees were also implemented for education. Most poor Ghanaians could not afford these fees, which increased the drop out rate for primary school to 40 percent. Only one in 400 Ghanaians attend college. Education, of course, is essential to reducing poverty, and the poor are denied access to education for the very reason that they are poor (Ismi 16).

The opening of Ghanaian markets for foreign investment has also proven detrimental to the impoverished. Beginning in 1986, under the auspices of SAP, the gold mining industry was privatized, with 95 percent of profits repatriated into foreign accounts. Between 70 and 85 percent of the mining sector is now owned by foreign companies, and the vast majority of revenues made by those companies do not stay in Ghana. Job opportunities in the mining industry are limited as well, leaving local communities to look on as their natural resources are whisked away without any benefit to their lives. Even worse, vast amounts of farm land in the Western Region have been taken away by the mining companies with little compensation from the government, leaving many farmers in the communities surrounding gold mines unemployed (Ismi17).

The 1998/1999 Ghana Living Standards Survey (GLSS4) reported that 40 percent of Ghanaians were beneath the poverty line, with 26.8 percent classified as very poor (Sowa 9). People whose income is less than one third of average household expenditures are considered very poor. Structural adjustment did not perform very well in addressing poverty if it was still so pervasive by the end of the twentieth century. While other factors such as poor government policies and corruption also had an impact, it is clear that many elements of SAP stratify income distribution. In fact, between 1975 and 1998 the poverty rate actually increased (Ismi 16). Trends in the 1980s indicated that the living standards for the poor dropped, which implies that income distribution became more stratified under SAP. From 1987 to 1989, when SAP was regarded to have its greatest positive economic impact, the poverty rate increased and the living standards for the poor dropped. A drop in living standards indicates that poor people had decreased access to necessities such as clean drinking water, health care, and education (Sowa 11). These statistics are not surprising in light of the measures taken by the government that affected the poor adversely. Indirectly reducing access to health care and education for poor people has devastating impacts for an already vulnerable segment of society.

In order to understand the nature of poverty of Ghana, the demographics of poverty must be discussed. GLSS4 indicated that the majority of the impoverished are not cocoa farmers or white-collar workers. Most of the poor in Ghana come from the informal sector. Landless people and subsistence farmers living in rural communities are the most vulnerable to poverty (Sowa 10). Poverty in Ghana, as with much of the developing world, is largely a rural condition. The rural savannah areas are the most poor, recording a poverty rate of 50 percent, with 33 percent classified as very poor. While the poverty rates fell in the 1990s, from a high point of 52 percent in 1992 to 40 percent in 1999, the impact was unevenly distributed. Accra and the forested areas in the western coastal section of the country were the sites of the greatest reduction, while in the savannah areas poverty actually increased (14). These trends indicate that structural adjustment can stimulate economic growth, but many of the poorest do not benefit. The core-periphery problem is encouraged under SAP, where the cities and industrial areas (such as Accra and the Western forest areas) become centers of concentrated wealth, and the surrounding rural areas constitute a sea of poverty, untouched by the advancements and development in the enclaves of prosperity.

The gap between rich and poor increased in this period of adjustment, as the elites and middle class reaped the benefits of open markets and decentralization. Meanwhile, vital services to the poor were cut by the government and their situation saw no marked improvement. The impact on the poverty rate was minimal, and even the progress made indicates that the northern savannah regions of the country remain just as poor today as they were twenty-five years ago. Many economists argue that economic reform is necessary to attract investment and increase capital flows. Others believe that these programs contribute to an exploitive relationship in which the countries and institutions (World Bank and IMF) of the north keep countries like Ghana in a constant cycle of debt and dependency, leaving them in a state of powerlessness so they can plunder the natural resources. The validity of either of these arguments is unimportant when one examines what the real goals of any development program should be. The data that has been collected indicates that very little has been achieved in alleviating poverty in Ghana since SAP was introduced. A program that is aimed at development should implement policies that effectively reduce poverty levels and address the needs and concerns of the poor.

Clearly, SAP failed to achieve these ends, so new strategies are necessary that can provide poor people with the needed resources to rise out of poverty. The focus on macroeconomic stabilization and growth often causes a situation where the poor are increasingly marginalized. Grassroots, localized efforts that focus directly on poverty instead of simply applying a trickle down theory (like the Ghanaian government, World Bank and IMF) to development economics are needed to fill the void. Microfinance provides a pragmatic and effective methodology for poverty alleviation that improves income and quality of life for poor communities, where other policies and programs have failed to achieve this.

Economic Impact of Microfinance in Ghana

The demographics of poverty listed in the previous section indicate just how stratified income distribution is in Ghana. The savannah belt in the northern part of the country suffers from the most abject poverty. Uneducated people who work in the informal sector and live in rural areas represent Ghana's poorest population. Opportunities available to the poor in these areas are extremely limited. Access to adequate food, water, sanitation, health care, and education are woefully inadequate for many villagers. Many people still survive on subsistence agriculture. Little effect from development efforts by the government or the World Bank is felt in these parts of Ghana. The question arises, then, as to how to effectively alleviate poverty in these regions.

Microfinance has presented itself as a powerful force in the fight against poverty. Many of the rural poor in Ghana possess great ingenuity and resourcefulness that naturally provide them with the skills to be ideal entrepreneurs. These skills are necessary simply to survive in everyday life under difficult circumstances. With the capital needed to start up or improve their businesses, these skills can be used to greatly increase profits and generally raise their standard of living. The profits earned through MFI loans can also be invested in the local community, improving the overall economic health of the communities impacted.

In order to understand the impact that microfinance can have, it is essential to have a working definition that states the goals and practices of microfinance. Microfinance, loosely defined, involves extending small loans, collateral free, to poor people (Samanowitz 10). It is a simple premise, but as mentioned below, it is revolutionary in the concept that extending banking services to the poor is a step worth taking. Most loans seem quite insignificant: at most 250 or 300 dollars, sometimes as little as 40 or 50 dollars. Their impact, however, is substantial. There are four important objectives of microfinance that guide MFIs. Reaching the poorest people in the world is the first and most important theme. Reaching and helping to empower women is the second objective. Third is building financially self-sufficient institutions. And fourth is sustaining a positive impact on clients and their families that is measurable (Daley-Harris xii). At its heart, microfinance aims to reduce poverty, and particularly to eliminate the kind of extreme poverty that plagues the poorest 15 to 20 percent of the population. For clients, microfinance can help to provide funds for children's education, a sturdy roof that does not leak, and three nourishing, healthy meals a day. These are the results that the best MFIs aim for. It has been shown that the participation of women is key to the success of microfinance, as well.

An understanding of gender roles in the economic life of Ghana can also provide context for how microfinance can benefit women. Women, as mentioned earlier, represent the vast majority of microfinance clients in Ghana. They are traditionally entrepreneurs, almost exclusively controlling the markets where much of the economic activity in Ghana takes place (Chamlee-Wright 121). In this sense, they are somewhat unique, because they have a higher degree of financial autonomy than many other women in the developing world (122). The high number of female entrepreneurs in Ghana makes women particularly attractive for microfinance.

Before MFIs became popular, there was very little access to capital for most of the working poor in Ghana. The majority of banks had minimum loan requirements that were far too high for the average rural citizen to afford. Collateral was another stumbling block, because most possible borrowers in poor communities cannot provide any collateral that is meaningful to a bank. Otherwise, many formal banking institutions require extensive paperwork that the rural poor often cannot understand due to illiteracy (Chamlee-Wright 134). It is a well-known adage that banks generally prefer to lend to those who do not actually need a loan. They are drawn towards the perceived safety and security of wealthier, less risky customers who can provide extensive collateral. Poor people possess none of these attributes. For this reason, formal banking institutions essentially shut out micro-entrepreneurs from receiving credit.

As a result, there was little recourse for those in the informal sector hoping to improve their businesses. They were forced to rely on in-kind credit, which requires repayment on a daily basis (Cheston 196). Relying on credit from suppliers keeps entrepreneurs in a state of dependency in which it is impossible to save money or expand their businesses. When borrowers do receive cash loans, they are often too small to have a substantial impact. Traditional susus, the mobile bankers of Ghana, occasionally provide loans, but they are usually not large enough and require too little time for repayment (Jones 1). Entrepreneurs cannot receive the capital required to truly expand and diversify their businesses under these conditions.

Microfinance institutions are unique because they act as banks, yet adapt themselves to specifically cater to the needs of their clients. It is important in micro-credit that loans do not require collateral and that interest rates are reasonable. MFIs, in order to be most effective, must utilize tactics that can best ensure that loans are put to good use and repayment rates are high. Microfinance should not be viewed as charity, because this implies that the recipients are receiving a handout. Repayment is expected to be on time for these loans and their impact is intended to be sustainable. Clients are responsible for their own economic destiny when the loans are placed in their hands, and their decisions and competence will determine success or failure. For clients of MFIs, defaulting on a loan is considered a great embarrassment and an opportunity squandered. This is perhaps an acceptable social convention, because clients are determined to take advantage of their loans and make the most out of the opportunity afforded to them.

The Sinapi Aba Trust (SAT), with branches across Ghana, has been one of the great success stories in microfinance. SAT has eighteen branches in all ten regions of

Ghana, and serves over 50,000 of the working poor throughout the country. Well over 90 percent of SAT's clients are women. Women in Ghana are traditionally traders in the markets. Goods traded include fruits and vegetables such as plantains, cassavas, oranges, and pineapples. Other common products, such as eggs, batteries, toilet paper, and flour are sold in the markets as well (Cheston 195). Women represent the bulk of microfinance recipients in Ghana and throughout the world.

SAT applies the group lending methodology for microfinance. With group lending, women approve loans for individuals collectively, pooling their resources and making decisions together. Twenty to thirty poor or very poor women living in the same community group together to form what are called Trust Banks. It has been shown that this is one of the most effective lending strategies in practice. If one woman, due to an emergency or some other misfortune, cannot pay one of her loans on time, the others can pool their money and cover for her. This provides a security net for borrowers that increases confidence and assures sound decision making. The women also discuss their businesses and provide each other advice for improving their businesses. By providing mutual support for each other and discussing options for future business ventures, participants are more likely to make good decisions that ensure success for their businesses (Cheston 194).

Two studies, one conducted by Opportunity International in 1997, the other in 2001, indicate the economic benefits provided by SAT. The 1997 study utilized diverse research methods meant to assess the full impact of SAT on the lives of its clients. To collect the data, three research tools were used: questionnaire-interviews, focus group discussions, and field observations (Afrane 43).

To find representative samples for the study, researchers selected clients who had been in the program for at least twelve months, to ensure that they had enough time to begin benefiting from their loans. The sample size was 129. A "before and after" methodology was used for the study, to indicate the baseline for participants and properly determine to what extent they benefited from SAT. One flaw in the study was that there was no baseline study performed by SAT, so the participants had to rely on memory to estimate their income and general economic situation before they joined. Of course, there are bound to be factual inaccuracies when relying on the memories of respondents (Afrane 44)..Another flaw in assessing impact is in attributing economic benefits to microfinance when they might be derived from other sources. Other development and social service programs are at work simultaneously with SAP, so some gains made by respondents could actually be the result of other development initiatives (41). However, despite these possible distortions, the eclectic tools used to measure impact should dilute inaccuracies to the point where a general idea of overall economic benefit for participants can be discerned.

The results of the study showed considerable economic gains for the participants. Business profits increased greatly for the majority of respondents. The average increase in profits was 157 percent. 43 percent of respondents said that they were able to hire new employees for their businesses as a result of their increased income, expanding their businesses further (Afrane 52). These results allow for the benefits of microfinance to spread to other members of the community, creating an indirect impact that improves the overall economic conditions. The economic gains also improved access to other facilities, including better housing, more food, education, and health care. The evidence indicates that a general rise in the standard of living occurred for respondents (Afrane 49).

The 2001 study showed similar economic improvements for the respondents. The information gained for this study was primarily through interviews with 1,200 respondents who were asked a variety of questions about how borrowing with SAT impacted their lives. 76 percent of respondents claimed that their working capital increased after they began borrowing with SAT. Half were able to stop relying on suppliers for credit and buy their commodities outright. 33 percent of mature clients were able to expand their businesses and hire new workers (Cheston 196-197).

The Lower Pra Rural Bank, another successful MFI, serves the impoverished in the Western Region of Ghana. Their Credit with Education program was studied in 1996 to determine economic impact and possible improvements in nutrition. Like Sinapi Aba Trust, Lower Pra Rural Bank uses the group lending methodology. The bank serves over 1,200 clients, over 90 percent of whom are women.

Two studies were carried out, a 1993 baseline survey and a 1996 follow-up. After the baseline data collection, nineteen communities were included in either a "program" or "control" group. The "control" groups did not receive micro-credit. This methodology allows a comparison between impact for those who participated and those who did not. The sample groups were poor or very poor women with children under three years of age. Evaluations for program impact are determined by differences between responses in the two data collection rounds for those who participated and those who were non-participants. Participants in the study had to receive micro-credit for at least one year prior to the 1996 study (MkNelly 1).

90 percent of women surveyed in 1996 said that they believed that their incomes had "increased" or "increased greatly" as a result of their participation in Lower Pra Rural Bank. This was widely attributed to business expansion, reduced costs as a result of buying in bulk or with cash, and new products that were now available because they had access to credit. There was significant variation in regard to amount of income generated. Some women were earning up to 300 dollars a month in their businesses, while others were making as little as ten dollars. The average increase in monthly earnings was 36 dollars for participants and 17 dollars for non-participants (MkNelly 1). To reduce the disparities and help women who are less successful with their loans, it has been argued that the program should include business training to help those who are struggling improve their business skills.

However, evidence from the surveys indicates that, on the whole, women who participated in the bank's Credit with Education program benefited greatly. The overwhelmingly positive responses from participants in regard to economic impact is indicative of this. Women who engage in market activities have much more freedom and flexibility to diversify and expand their businesses when they have working access to credit.

These women only required a small boost of capital to unlock their economic capabilities. The great untapped potential of the rural poor is embodied by the women of SAT and the Lower Pra Rural Bank. The fact that women are largely the beneficiaries of microfinance in Ghana also has implications for women's empowerment, which will be discussed in the next section. Clearly, the working rural poor of Ghana, with the help of microfinance, can help themselves and also help to transform the economic life of their communities. The evidence collected from these studies indicates that the poor of Ghana have great power to improve their own lives with microfinance. MFIs are not charities or relief organizations. The well-run MFIs are often viable institutions that make a profit as well as providing a much-needed service. Repayment rates for both Sinapi Aba Trust and the Lower Pra Rural Bank are well over 90 percent, and both institutions are fully self-sufficient and sustainable, meaning they can continue to provide their services to the poor without any significant future risk of financial disaster or need for outside interference (Cheston 195 and MkNelly 2). SAT and Lower Rural Pra Bank aim to enhance the long-term economic empowerment for their clients, providing a sustainable solution that will benefit borrowers.

The financial potential of microfinance is important in promoting its expansion. The fact that a successful, pragmatically operated MFI can turn a profit while providing a much needed service to the impoverished is very attractive to potential practitioners. These appealing characteristics of microfinance can be very important in publicizing its potential and spreading its impact through greater participation from qualified individuals in the investment field.

For these reasons, microfinance is successful in alleviating poverty for those with access to it. Borrowers are able to help themselves economically. The onus is on them to use the loans wisely and responsibly in order to improve their lives. The responsibility, in the end, does not lie with some distant, large-scale institution like the Ghanaian government, the World Bank, and the IMF, that speaks abstractly about development and poverty alleviation, yet fails to directly address the issues facing the impoverished. It lies at the local level, in which the MFIs deal directly with the communities they provide services to. This methodology is much more effective, tapping directly into the potential economic power of the poor and allowing them to use their newfound economic resources to alleviate their own poverty.

The capacity for innovation and flexibility also makes microfinance an effective tool for development. A good example of such innovation is in the linking of traditional susu collectors with mainstream financial institutions to extend access to credit. Ghana has a long, traditional history of credit and savings with susus. Traditionally, susus in Ghana provide savings services and small loans to clients, many of whom are engaged in the informal sector. Entrepreneurs save a set amount of money with the susu collector each day. At the end of the month, all of the money is returned minus one day's savings. Susus normally travel around the markets, collecting their deposits from entrepreneurs. The susu-men will lend money out to their more trusted clients (Chamlee-Wright 94). However, loans are normally too small and short-term to have a significant impact on the business and economic capacity of the client.

Susus are very popular among the working poor of Ghana, and provide a great opportunity to expand access to credit, because there is already a widespread informal network in place. Often, potential clients will be wary of MFIs, and will not participate due to their suspicions. Susus, however, are well-established: Clients are comfortable with susus, so bringing microfinance to the susus extends its accessibility. Linking the susus with formal banking and financial institutions can expand the businesses of the susus and, most importantly, expand the capital available to borrowers. The most prominent banks to link susus with formal banking operations are Barclay's and Citi Savings and Loan. A 1999 study conducted by the Overseas Development Institute (ODI) indicates the success of Citi in reaching susus and extending access to credit for the clients of susus. At the time of the study, Citi served 63 susu collectors throughout Ghana, who served over 25,000 clients. The linkages to Citi made capital more readily available for loans and allowed for more flexibility for longer-term loans, which provides the real potential for credit to substantially improve the businesses of clients. Repayment rates were 98 percent at the time of the study, indicating just how reliable the clients of susus were and the sustainability of the program (Jones 3-4).

By linking operations to susu collectors, Citi Savings and Loan is tapping into a great resource. There is much unmet demand for credit among the rural poor of Ghana. Not only is Citi acting as a responsible corporate citizen by extending the provision of financial services to the poor, it is engaging in an intelligent business practice. One of the great attractions to this program is its profitability. Money can be made by tapping into the informal sector, and Citi's linkage with susu collectors has proven to be very profitable. Utilizing traditional financial institutions in implementing such a project is not labor intensive or expensive, because the institutional framework is already in place through the operations of the susu collectors themselves. Citi is *indirectly* lending to the poor through the susus. The program technically serves 63 clients (susus), but in reality more than 25,000 clients are served through the susu's clients (3).

Creating links to informal sector workers and formal institutions not only has the potential to be profitable for the institutions that become involved, but can open up access to capital for those who need it most, and will put it to good use. It is in the interest of conventional banks in Ghana to establish programs like Citi's that will further extend the provision of credit and inject much needed capital into poor communities.

The example of Citi's links with susus indicates the flexibility of microfinance. There is no single blueprint for success with microfinance. There are guidelines and tactics that have proven to be effective, but the diversity of cultural and societal factors between countries and even diverse locales within countries requires a certain degree of flexibility. There is great room for innovation with microfinance, and the MFIs examined here are excellent examples of the spirit of creativity that can foster a successful program.

Qualititative Impact of Microfinance in Ghana

The impact of microfinance extends far beyond economic gains. One of the most important attributes of MFIs is their ability to meet the specific needs of the communities they serve. MFIs, therefore, in addition to financial services, provide many other benefits, including education programs for borrowers, ranging from business improvement to savings to childcare. The benefits for women as a result of micro-credit are remarkable, as well. As mentioned before, the majority of microfinance clients are women. Microfinance presents a number of strategies in which women attain more power and confidence. MFIs provide an overall holistic transformation for borrowers that encompasses the economic, social, and psychological realms. SAT and Lower Pra Rural Bank provide good examples of the qualitative effects of microfinance on clients.

Women represent over 70 percent of the world's poorest people. It has been shown that gender inequalities and gender discrimination can greatly hinder economic development in the Third World. Women, in a state of subordination and rigid gender expectations, are prevented from making a meaningful economic contribution in many poor households. They also make up the majority of the lower-paid informal sector, which is inherently unstable and vulnerable economically. Women living in poverty usually have fewer opportunities than men to break the cycle, because their options are limited by their gender (Cheston 171). For these reasons, it is vital that women improve their status in society in order to reduce poverty and advance economic development.

There are other compelling statistics that make women attractive for microfinance. First, women are more likely to spend their income on their families than men, particularly for their children's education. When they earn more income, the well-being of the whole family improves. The benefits of microfinance, when provided to women, benefit several people instead of just the individual beneficiary. As far as repayment of loans, evidence shows that women normally have far higher repayment rates than men (Cheston 172). Men tend to default on loans more often, and these actions can threaten the sustainability of MFIs. Women have a reputation for using their loans more efficiently and are generally more cooperative than men with loan officers (172). Any MFI that desires to be efficient and provide continuous service to clients should look towards female entrepreneurs. The financial benefits alone should convince MFIs that women are the best clients for microfinance.

Women, although their traditional role is that of entrepreneur, are faced with many more responsibilities than men. Husbands and wives traditionally function within two separate economic spheres. Women largely operate within the markets, which is hierarchically organized. Generally, a market queen, who leads the market, is elected by the market women by consensus. She is largely responsible for settling disputes and maintaining a general sense of order (Chamlee-Wright 108). The markets are almost exclusively run by women, stressing the distinct roles of men and women. The husband

and wife often live in separate homes, and their incomes are separate as well. Women are the main caretakers for the children. Men will often provide money for large expenses such as school fees, but this money is often insufficient. Family relations are also very important in Ghanaian society, with close-knit kin groups providing financial, material, and moral support. When women marry, financial support from the extended family drops off much more than that of men (Chamlee-Wright 101-102)

Women also bare the brunt of day to day expenditures required for the family. Therefore, the financial burden upon women in Ghana is quite large, and the pressures and responsibilities in balancing work and family can be very stressful (Chamlee-Wright 122). The economic strain within this gender structure can be intense, and the need for added income is apparent, when it is clear that women normally earn less than men working in the informal sector. In regard to financial matters and other important issues affecting the whole family, the husband normally makes the decisions. The wife can give her opinion on the matter, but the final decision belongs to the husband. The balance of power in the economic relationship still favors men (122).

Sinapi Aba Trust encourages empowerment for women through its programs. Most importantly, borrowers receive training designed to improve their businesses, including customer care, pricing, marketing, and selling on credit. Social and community issues are also discussed when the Trust Banks meet every week. Some of the most important topics women discuss are those that involve managing the plethora of responsibilities in their lives, to their businesses, their husbands, and their children (Cheston 195). The group lending methodology has been shown to aid greatly in women's empowerment. The support borrowers in the Trust Banks provide each other is vital in building confidence and sharing ideas that make them stronger and more able to handle the challenges they face. Business tips members of the group provide each other can be very helpful, as well. A strategy for better selling a particular product that a successful entrepreneur utilizes can help a struggling young businesswoman. Any strategy that an entrepreneur picks up that is effective for her business can be disseminated to others in this environment. These women are all in relatively similar living situations, and the ability to act as a community to discuss their problems makes them better entrepreneurs and better decision-makers (Cheston 195).

Indeed, the qualitative evidence from the 2001 study of SAT shows significant indications that women were empowered through access to microfinance. Of course, increased income is the most important factor that leads to women's empowerment. The economic empowerment detailed in the last section led to several important social and psychological effects. 93 percent of respondents claimed that they were accorded with more respect and were more accepted by their communities (Cheston 197). They felt a greater sense of leadership and importance in their communities because of their newfound business success.

Additionally, the vast majority of men surveyed said that they supported their wives' participation in SAT. For the most part, they appreciated the increased income and increased contribution to the household that the loans provided. However, simply earning some extra income to cover the day to day expenses they are already expected to be responsible for is not necessarily enough to increase the input women have in decisions important to the family. But if she earns enough to pay for expenses that are normally paid by men, her power to make household decisions can increase drastically. Therefore, those women who were particularly successful in their businesses found greater household decision-making power as a result (Cheston 198).

Education, of course, is essential to fostering economic development and encouraging gender equality. For the most part, girls in Ghana have far less access to secondary school and college education than boys. This further limits opportunities for women to branch out into the professional world and earn a livable income. The women of SAT understand this problem, and are often proudest of their contributions to the education of their children. Due to their increased income, women often have more power to make decisions on schooling for their children. Women in SAT send both sons *and* daughters to school when they can, and encourage them equally to succeed. An important discussion topic that loan officers emphasize at group meetings is that girls should not be limited in what careers they pursue by gender. The rigid structure of gender roles is weakened slightly with the added input of women. Mothers teach sons to cook and clean, while daughters are told that they can go to school and pursue any career field that suits them (Cheston 198-199). These changes sow the seeds for future generations in which the opportunities of women are expanded and gender limitations are reduced. The indirect implications that microfinance has for women's empowerment could be greatest for the next generation, when gender and gender roles do not have the same grip on the consciousness of society that it has today, and women have more freedom to pursue their goals.

At other SAT meetings, women are taught how to improve their relationships with their husbands and assert their opinions without being viewed as haughty or disrespectful. In Ghana, it is often taboo for women to forcefully complain or argue with their husbands. These meetings help women express themselves without being considered insolent. Before joining SAT, many of the respondents said that they were very quiet and very rarely spoke up if they had an objection with the decisions or conduct of their husband. Now, they are more willing to freely express their opinions, but in a respectful and cooperative tone that doesn't label them as disrespectful (Cheston 200).

However, there are concerns about some of the implications for these results. Critics complain that, for rural women, microfinance encourages them to improve their lot *within* their traditional gender roles. There is little transformation in terms of what the perceived responsibilities of women entail, but there is simply an improvement in efficiency in fulfilling their traditional responsibilities. Husbands did not significantly change their views on the role of women in the household and the community. They also expressed pride that their wives were better able to fulfill their expected roles with their increased income. And, in the end, men had the final say in important decisions (Cheston 203).

However, evidence indicates that women significantly increase their input in the household and gain more decision making power, particularly if their income increases significantly. Another cogent argument is that in order for truly lasting changes in gender roles to occur, women first have to increase their power within their traditional roles. These improvements can later be used to foster political action and an awakening for women to speak up for their rights and the need for societal change. It can not be expected that gender roles that have been entrenched in Ghanaian society for generations can be transformed in the blink of an eye. It takes time, effort, and courage to achieve drastic social change. Microfinance, through women's empowerment, can serve as a catalyst to foster a movement that will, in the future, truly transform the concept of gender roles in Ghana. Gaining a greater voice in the community is a positive step towards achieving these ends.

Traditionally, in Ghana, women are not expected to speak out and bring unnecessary attention upon themselves. Humility and a quiet reserve are considered valuable womanly attributes. Unfortunately, these gender expectations often keep women in a state of subordination, where they are stifled from truly speaking their mind or expressing themselves clearly. Being opinionated and vocal can be perceived as haughtiness or disrespect on the part of a Ghanaian woman. Therefore, many women do not often gain a reputation for taking an overly active role in public and community life.

Participation in SAT increased respondents' participation and influence in the community. Members often developed a reputation for hard work and successful business management. Many respondents said that they took a leadership role in the community, giving advice at community meetings and helping to make important decisions pertinent to the well-being of the village. Participants advise neighbors on a wide range of topics, including business, family, and health, due to their increased status and respect. Increased self-esteem as a result of microfinance gave women the confidence to take an active part in their community and the ability to share their ideas with neighbors (Cheston 201). The fact that women are sharing their knowledge with non-members is important, because it indicates that the benefits of microfinance extend beyond just the members, to the entire community. The well-being of entire communities can be impacted by microfinance if the benefits, both economic and social, can be diffused to others.

Given the traditional reserve and passiveness expected of Ghanaian women, a newfound voice in the community is an important step forward. Women are beginning to assert themselves and make their voices heard. They have broken through the traditional cloak of silence that dictates the public function of women and now play an active role in the well-being of their families and neighbors.

The Lower Pra Rural Bank study reported similar findings in terms of women's empowerment. Participants reported that they gained more confidence to feed their children nutritious, healthy, foods, prevent their children from getting preventable childhood illnesses, and earn more money next year than in the current year. There was also an increase in women's say in household decisions, particularly in regard to decisions on whether to send their children to school (MkNelly 1).

Husbands of respondents also increased their contribution to household responsibilities such as childcare, as the women deal with an increased time commitment for their businesses. Community participation for respondents increased as well, helping family members and others in the village with support and advice (MkNelly 2). Again, it seems that the economic empowerment gives women greater confidence to speak up and help others around them. Respondents also gave more money to non-kin funerals, which helps to raise their social status and improves the reputation within the family (2).

Another important aspect of microfinance is the ability of practitioners to tie in education programs with lending to improve the overall well-being of the community. The Lower Pra Rural Bank Credit with Education program is indicative of the possibilities of community development that can coincide with economic gains through microfinance. In the program, women take classes on a range of important childcare issues, particularly to improve the nutritional status of their children, ranging from preventing diarrhea to improving nutrition intake for children one to three years old. The classes also encouraged breast feeding as opposed to formula feeding, which has been shown to have potentially harmful effects on infants (MkNelly 1).

Malnutrition and malnourishment are problems that particularly strike young children in the developing world. Nutrition education, therefore, is essential to ensure that children maintain a healthy, nourishing diet in their first years. The capabilities of a community to break out of the cycle of poverty are greatly debilitated if young children are not strong and healthy. The earliest stages of development in children are essential to setting the stage for a strong, healthy future.

The majority of respondents made significant improvements in nutrition and healthcare practices promoted by the Credit with Education program. These include: giving newborns healthy first milk, called colostrum; enriching traditional foods with high protein and nutrient foods such as beans, eggs, fish, and palm oil; hydrating children with diarrhea; and utilizing tactics to prevent diarrhea (MkNelly 2). These women learned effective strategies to help them better prevent childhood disease and provide rich, nourishing foods that build strong, healthy immune systems.

Both the Lower Pra Rural Bank and the Sinapi Aba Trust fulfill the idea of microfinance as a development tool that not only fosters economic improvements, but promotes community activism and a general uplift in the standard of living among the poor of Ghana. Women's empowerment, increased community involvement, improved nutritional capacity, and better self confidence can be actively promoted by microfinance. These qualitative benefits, working in concert with economic empowerment, make communities stronger, more cooperative, and better able to handle the hardships and challenges of everyday life. Strong community development encourages future economic improvements. Microfinance works so well because it succeeds at the local level, where communities can work towards improvement together.

The structure of many MFIs encourages mutual communal support and cooperation, which blends in well with traditional rural Ghanaian life. Traditional village life in Ghana normally involves communal ownership of the land, government by consensus, and an emphasis on serving the interests of the whole community above those of the individual. The spirit of MFIs such as Sinapi Aba Trust continues to stress the importance of community through strategies such as group-lending and community projects. Microfinance proves that new ideas can mesh with traditional practices to move forward and progress. There are cultural foundations already in place that can greatly enhance Ghana's development. Citi's program with susus and the success of communally focused microfinance indicates the potential of utilizing existent cultural experiences to enhance development objectives. It is perhaps due to the culturally flexible nature of microfinance that it has been so widely accepted in rural Ghana. Microfinance does not tear down Ghanaian culture, but rather interlocks with it and engages it. There is no doubt that there are particular elements of Ghanaian culture that are challenged for the sake of development. The traditional role of women, of course, is contested by microfinance and MFIs encourage an expansion of women's rights, which challenges traditional authority. But MFIs pursue these goals with sensitivity and tact. They do not attempt to insult or violently oppose these elements of traditional culture. It is through a balanced integration with other aspects of rural Ghanaian culture that these objectives are pursued.

Microfinance has a powerful impact because of its ability to encourage change without attempting to destroy rural Ghanaian culture. Women's empowerment, improved nutrition, and higher school enrollment all contribute to community development, which lays the foundations for truly powerful economic transformations in rural Ghana. There is no doubt that the economic jump start microfinance provides is necessary, but qualitative factors are equally important in raising the living standards of the rural poor in Ghana. The innovations of microfinance help achieve these aims.

Towards an Integration at the Local, National, and International Levels

So what implications does microfinance have for future development efforts in Ghana? Clearly, the success of MFIs throughout Ghana has shown just how effective it can be as a strategy to fight poverty. Not only are many MFIs providing increased financial services to the poor throughout the country, they are also financially sustainable. Sinapi Aba Trust has repayment rates of over 90 percent and an operational self-sufficiency of over 100 percent. This means that SAT is able to cover all of its costs for implementation and loans with interest earned through repayment. It is financially independent, not requiring any outside help to continue operations.

The Ghanaian government and the World Bank have supported several microfinance ventures throughout the country, providing logistical support and financial backing. The Ghana Microfinance Institutions Network is supported by the government and provided with funds. Two notable World Bank programs are aiming to expand the reach of microfinance. The Micro, Small, and Medium Enterprise Project works to strengthen access to MFIs for micro-entrepreneurs, among other efforts to expand their businesses. They have committed 45 million dollars to the project, as well as 5 million dollars to the Rural Financial Services Project, which aims to promote and expand microfinance in the poorest and most remote rural regions in Ghana (World Bank). These programs are a positive sign that the international community is tapping into the great possibilities of microfinance as a development tool.

However, there is a general consensus that the government and the World Bank have not provided enough support to microfinance institutions. The promotion of and financial support for microfinance has not yet met the great demand of Ghana's impoverished. Large-scale, macroeconomic policies under the Heavily Indebted Poor Countries initiative still dominate the development efforts of the government and the World Bank in Ghana. One of the most important services that the government and World Bank can provide is linking informal and semi-formal MFIs with the mainstream financial institutions to ensure that working capital is available to better provide services to the poor. However, there are still wide swaths of impoverished people throughout the country who do not have adequate access to credit services. The government and the World Bank, if they are truly interested in reducing poverty in Ghana, should help expand these services to as many individuals as possible.

Ideally, local, national, and international actors would work in cooperation to promote and expand microfinance and improve the functionings of the daily operations of MFIs. The World Bank and the Ghanaian government, if utilized effectively, can be a great resource in providing logistical support for MFIs. They have the ability to help link MFIs with formal banking institutions, including Ghana's Central Bank, which will allow clients to procure even greater and more efficient services through their involvement. A multi-tiered approach to the continued development of microfinance in Ghana provides the greatest hope that access to credit will extend to the far reaching corners of the country.

A good template for the establishment of an MFI in a rural community would be one in which the World Bank and the government, with the resources available to them, first locate regions of the country that are untouched by microfinance. Then, interested fledgling MFIs could begin laying the groundwork to establish operations in those regions. The World Bank and the government would play an important role in these early stages, providing financial support to the fledgling operation and logistical help to help get the operation off the ground. They could also assist in determining the best tactics and most successful format for success. Once the MFI establishes itself as a successful and viable entity, the World Bank and the government could step back, removing themselves from further involvement in the day-to-day functions.

Ideally, by this point the MFI is sustainable, attracting high repayment rates and maintaining full financial self-sufficiency. The government and the World Bank have performed their task, and their continued involvement is no longer needed. In this situation, there has been cooperation at the international, national, and local levels. At its core, microfinance is a local phenomenon. Every community is unique, and successful MFIs are able to adapt to local conditions and implement policies that are best suited to the communities served. However, in the early stages of establishing a fledgling MFI in a new region, the World Bank and the government can play a very important role in cooperation with the MFIs that can help ensure future sustainability. In the long-term, the presence of large international and national institutions is not necessary, and can, in fact, be detrimental, due to their highly bureaucratic and impersonal nature.

Sustainability is a word that is perhaps over-used in the development field and is not clearly defined. MFIs certainly have the potential to attain sustainability in their operations. Sustainability for an MFI should mean that it is able to function without any outside interference, achieving high loan repayment rates and paying for its own operations based on interest from clientele. Many MFIs in Ghana have achieved this sustainability, including Sinapi Aba Trust. Assistance from the World Bank and the government would ideally be provided until financial self-sufficiency is clearly attainable. At this point, the MFI would have established itself as a viable entity and would no longer need support. MFIs work best when loan officers and officials work directly with the people in the community, without any outside interference. The local, grassroots nature of MFIs is better preserved when they are sustainable and can function without help from outside sources.

Conclusion

Microfinance is not a panacea to Ghana's poverty. It cannot stimulate large-scale economic development on its own. Good governance and sound economic policies are vital to the economic success of Ghana and the eradication of mass poverty. For years, the many regimes that ruled Ghana drove the economy into the ground with bad economic policies and a culture of corruption and cronyism. The lack of a democratic culture allowed the government to run roughshod over the people without ever being held accountable for its actions. In 2000, Gerry Rawlings allowed democratic elections after twenty years of dictatorial rule. Surprisingly, rival candidate John Kufour defeated Rawlings' favored candidate and won the presidency. The significance of this moment in Ghana's history cannot be overstated. It marked the first time in the country's history that there was a peaceful transfer of power through democratic means (US Department of State).

Kufour's presidency has been marked by measured economic growth and a stable political environment. However, poverty is still pervasive and economic inequalities are still quite large. The large foreign debt Ghana labored under led Kufour to accept the conditions of the World Bank's HIPC program in 2002. Corruption and nepotism are still problems that stifle the efficiency of the government's development initiatives. But the drastically improved political environment is certainly a step in the right direction. Political instability can leave an economy in ruins, as evidenced by the Democratic Republic of the Congo and Angola, with economies that are in complete shambles. This sort of instability plagued Ghana for many years, which provides a reminder of how important the transition of power in 2000 truly was (US Department of State). The people of Ghana can place more confidence in the government to work for their welfare and aid in development efforts. A politically stable climate with a supportive government also allows development programs like microfinance to function more efficiently and provide services to more communities. It is very difficult for development programs to achieve their objectives when political unrest is causing upheaval.

The combination of good governance with strong economic management and microfinance can have a drastic effect on poverty in Ghana. With both elements functioning efficiently, real progress is possible. The combination of macroeconomic expansion with grassroots, localized development in the form of microfinance can help to create a healthy economic environment in which businesses expand, unemployment drops, and the poor have greater access to capital.

The Ghanaian government also has the potential to increase its focus and step up the resources it is willing to provide to expand the influence of microfinance. With the recent political successes, the potential is there for the government to indicate to citizens that they are concerned about poverty and income stratification and will actively work towards solutions for these issues. The World Bank can also help to repair its damaged reputation by taking a greater interest in microfinance and playing its own role in its promotion, working with the government to provide the resources necessary to broaden its reach. Cooperation at the local, national, and international levels can transform microfinance into a leader in the fight against poverty. Its influence is increasing, but it can be much greater with more support.

Hope is the intrinsic quality of microfinance that has guided its success for so many borrowers. A small loan of fifty or one-hundred dollars provides a poor woman with the hope that she can replace her leaky roof, provide her children with an education, and improve her own well-being and the well-being of others in her community. To default on these hopes is unimaginable for many of the working poor. That is why most borrowers are able to repay their loans and significantly increase their incomes. They are privy to the fact that microfinance might provide them with their only chance to rise out of poverty. To provide the poor with the ability to make their own lives better is a groundbreaking idea in development. The power is in the hands of borrowers to make good on their loans and find success in their ventures.

The injustice of a political and economic system that leaves the poor in a cyclical state of powerlessness has contributed to a plague of despair and misery. A person born into poverty often finds very little opportunity to break out of it and move up on the social ladder. Inadequate access to education, nutrition, health care, clean drinking water, and transportation prevent dreams from coming into reality.

At its core, microfinance provides people with the power to do something about their poverty. Despair becomes faith and loans become school uniforms, healthy food, and clean water. Power is a tool that the wealthy elites have used for centuries to maintain the status quo. With microfinance, the poor can use their newfound power to make change, to transform their communities and make their lives and the lives of those around them better. In this sense, its value cannot be disputed.

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