Microfinance and Rural Household Development

A Ghanaian Perspective

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ABSTRACT

Though at the theoretical level, micro-credit is said to play a significant role in poverty reduction, empirical work on the role of micro-credit in poverty reduction is mixed with some studies indicating high levels of employment and income generation and others suggesting a worsening of poverty with micro-credit. Does micro-credit really get to the poor? Does it enhance or impede their productivity? Based on a study of 139 households in one rural area in the Upper West Region of Ghana, we find that: (a) Beneficiaries of micro-credit divert a significant portion of such loans into household consumption – albeit with moderate impact on household productivity and welfare and (b) Micro-credit has modest impact on rural community development.

Keywords: Ghana, micro-credit, microfinance, rural, household development

Introduction

Microfinance[1] is often considered as one of the most effective and flexible strategies in the fight against global poverty. Its emergence, since the 1970s, was informed by the logic that poor households and the 'unbankables' could be dependable bank clients (Cull et al., 2009; Krauss and Walter, 2008). The widely held view is that microfinance is sustainable and can be implemented on a massive scale necessary to respond to the urgent needs of the worlds poorest (Grameen Foundation, 2005; Sapovadia, 2006). As Fisher and Sriram (2002: 19) put it:

> By delivering financial services at a scale and by mechanisms appropriate to them, micro-credit can reach poor people; by providing poor people with credit for micro-enterprise it can help them work their own out of poverty;

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by providing loans rather than grants the micro-credit provider can become sustainable by recycling resources over and over again; hence micro-credit serves to deliver the 'holy trinity' of outreach, impact and sustainability.

It offers the potential for a self-propelling cycle of sustainability and massive growth, while providing a powerful impact on the lives of the poor (Littlefield et al., 2003; Makina and Malobola, 2004; Rhyne, 1998).

Scholars do not agree on the impact of micro-credit on poverty reduction. While many of them celebrate the positive impacts of microfinance (e.g., Copestake et al., 2001; Gonzalez, 2008; Krauss and Walter, 2008; Littlefield et al., 2003; Marr, 2002; McKernan, 2002; Mosley, 2001; Sajeda et al., 2003; Wydick, 2002), others (e.g., Chen and Dunn, 1996; Fisher and Sriram, 2002; Khandker, 2005; Leinbach, 2003; Tripathi, 2006; van de Walle and Cratty, 2005) contest the so called positive impact of micro-credit. This latter group argues that micro-credit bypasses the poor and, in the rare case when it reaches the poor, micro-credit kills their initiative. There is yet a third group of scholars who remain neutral in the debate[2]. This 'neutral camp' acknowledges the developmental importance of micro-credit services, but points out the numerous aggravating challenges the sector faces (e.g., Ashcroft, 2008; Fischer and Sriram, 2002; Foose, 2008; Robledo, 2008). Therefore, though well researched, there is no consensus on the role of micro-credit in poverty reduction.

This article contributes to the ongoing debate by drawing on field level evidence to examine the accessibility of micro-credit to the rural households and assess the impact of micro-credit to poverty reduction and income generation within the household and community. The insight produced from these considerations may contribute to our understanding of how to improve access to micro-credit for resource-poor rural people and how such credit can be effectively managed.

The rest of the article is organized as follows. Section 2 provides the conceptual framework to guide the analysis including the review of some related literature on micro-credit impacts at the global scale. Section 3 outlines the research approach and methodology. Section 4 is an analysis of the results and findings – paving the way for a discussion of these results in Section 5.

Conceptual Framework and Related Literature

Microfinance or micro-credit[3] encompasses any effort to increase access to, or improve the quality of, financial services available to the poor.

The term also refers to the *practice* of sustainably delivering those services (Littlefield et al., 2003). Though microfinance may target the very poor (the *poverty* and *self-sustainability* paradigm), it may also be aimed at the moderately poor (self-sustainability paradigm) (Fisher and Sriram, 2002; Rhyne, 1998; Schreiner, 2002: 591).

These different paradigms shape how microfinance schemes are evaluated. Self-sustainability determines impact by *how well microfinance expands the frontier of the mainstream economy in the long term* (Von Pischke, 1991, cited in Schreiner, 2002). It thus emphasises the mainstreaming of micro-credit as a financial service, leading Fisher and Sriram (2002) to refer to this paradigm as the 'finance school'. The poverty paradigm on the other hand, stresses *the need to reach poor people* (Fisher and Sriram, 2002: 19). Some tension exists between these two paradigms, one of which is the tendency of the finance school to focus on the main economy at the expense of the recipients of micro-credit – the poor. In order to reconcile these two perspectives, Fisher and Sriram (2002) have suggested that microfinance should focus on poverty and commitment to sustainability under the following perspectives: outreach (or access) *and* financial sustainability. The subsequent discussion follows the schema of Fisher and Sriram (2002) to look at microfinance in terms of how easily the poor can access microfinance services, its impact on the poor and its commitment to community development.

There is a burgeoning interest among researchers concerned with microfinance in enquiring 'who has access to what financial services'. It is believed that this kind of information is crucial, for example, in helping financial service providers to design better ways of delivering better services profitably on a significantly larger scale than at present (Honohan, 2005). Outreach is also crucial because evidence shows that access to financial services increases and diversifies incomes, builds assets and improves lives in many ways (Ashcroft, 2008). Access to credit enables poor people to invest in a wide range of assets: better nutrition, improved health, access to schooling, a better roof on their homes and expansion of their small businesses (Ashcroft, 2008; World Bank, 2002; Littlefield et al., 2005). Therefore access or outreach encompasses the ability of Microfinance Institutions (MFIs) to reach poor and remote people.

Outreach can be measured in terms of *breadth and depth*. Breadth of outreach is the number of clients reached by MFIs and volume of services (i.e., total savings on deposit and total outstanding portfolio)

(Lafourcade et al., 2005; Schreiner, 2002). Budget limitation often limits the breadth of outreach (Schreiner, 2002). Depth of access, on the other hand, is the socioeconomic level of patrons that MFIs reach. It emphasizes the value that society attaches to the net gain of a given client. In welfare theory, depth is the weight of a client in the social-welfare function (Cull et al., 2009; Schreiner, 2002). If society has a preference for the poor, then poverty is a good proxy for depth. However, direct measurement of depth through income or wealth is difficult, and indirect proxies for depth like sex, location, education, ethnicity, housing and access to public services are used instead.

There have been some successes in terms of the breadth of microfinance. A recent study by Kruass and Walters (2008) estimated that there are about 40 million microfinance clients worldwide. According to Ehrbeck (2006), total loan portfolios of MFIs in mid-2006 amounted to about $17 billion and this is expected to grow to around $300 billion in the near future.

In terms of location, Asia appears to receive the most loans. In a survey of over 1,500 MFIs from 85 developing countries, e.g., Lapeneu and Zeller (2001, cited in Montgomery and Weiss, 2005) revealed that Asia accounted for the majority of MFIs, retained the highest volume of savings and credit and served more members than any other continent. Another study by Lafourcade et al. (2005) suggests that the East Asia and Pacific regions mobilize the most voluntary savers because of the presence of the largest MFIs in the world, Bank Rakyat Indonesia (BRI) which has 29.8 million savers. In Bangladesh alone, the birth place of microfinance, outreach of micro-credit is over 75 per cent of the poor families (Yunus, 2003). Asia however has the least size of loans and deposits and Africa dominates this category (Lafourcade et al., 2005: 4; Montgomery and Weiss, 2005).

There are many stains however in the seemingly positive evaluation of micro-credit. In an analysis of villages in Thailand, Coleman (2006) found that microfinance programmes are not reaching the poor as much as they reach relatively wealthy people. Coleman's study revealed that there is a bigger impact of microfinance on richer committee members rather than on rank-and-file members. In contrast with the above arguments, there are those who contend that micro-credit does more harm than good to the very poor. Coleman's study is consistent with Dichter's (1999) argument that credits by passes the poor who really need it. When it gets to the poor, Ditcher argues, it breeds laziness and hence fails to promote

economic growth. Thus unlike trade and direct private investments, aid cannot kick start the development process (Martinussen and Engberg-Pederson, 2003).

Empirically, several other studies also demonstrate that micro-credit do not benefit the poorest in society. For example, Hulme and Mosley (1996) after studying 13 micro-credit schemes in Asia, Africa and South America found that micro-credit only benefit the upper and middle income poor rather than the 'poorest of the poor'. A subsequent analysis by Mosley (2001) found no impact on extreme poverty. After assessing welfare level of some members of Bangladesh's Grameen Bank, Amin et al. (2003) indicates that members are poorer than nonmembers; the programs are successful at reaching the poor, but less successful at reaching the vulnerable. The poor and vulnerable are therefore effectively excluded from membership. In the view of Khandker (2005), microfinance supports mainly informal activities that often have a low return and low market demand and that the aggregate poverty impact of microfinance is modest or even nonexistent.

It is these findings that have led to a pessimistic view of microfinance. Tripathi (2006), for example, has observed that though there may be some benefits in providing microfinance, we should not expect it to help the very poor, no matter what the Nobel judges say[4] because microfinance has more to do with social politics than economics. Others argue that, like all forms of financial aid, micro-credit is fungible within the household and is unlikely to have any impact at the enterprise level (Chen and Dunn, 1996; Fisher and Sriram, 2002; Leinbach, 2003; van de Walle and Cratty, 2005). The debate about the 'miracles' and 'curses' of microfinance rages on with no consensus on its ability to reach the poor, move them out of poverty and impact on the enterprise and community levels. It is, therefore useful to consider microfinance programs on a case-by-case basis, taking into account cultural and other socio economic conditions of the recipients of micro-credit. It is in this spirit that we conducted this study in Ghana.

Research Methodology

The Research Setting

The research was conducted in the Lawra-Nandom district located in the extreme North-Western part in the Upper West Region of Ghana. The rationale for selecting this district is that it is one of the youngest and most

deprived district in Ghana. It is estimated that 70 per cent of the people are living below the poverty line of ¢900,000.00 (about US$100) per adult per year (Lawra District Assembly, 2004). As a result, there is a large presence of many micro-credit institutions in the area, mainly to contribute to poverty reduction by generating employment opportunities. The district is made up of eight zones: Lawra, Nandom, Eremon, Zambo, Babile, Puffien, Baseble and Ko. Lawra and Nandom zones are the largest and thus take a bigger share of the districts high population density. Among these zones, Nandom was purposively selected for in-depth study.

Agriculture is the most important source of livelihood in Nandom. The type of agriculture being practiced is mainly subsistence for the up-keep of families. The main source of farm labour is household family labour (i.e., husband, wife, children and dependants). However, agriculture has become an increasingly risky occupation mainly due to the low fertility of the soil, increasing population pressure, low levels of investment in agriculture, low returns and a high cases of deforestation. Therefore, households have sought other sources of income, most notably through migration for agricultural labour in other villages or for wage labour in urban areas such as Wa, Kumasi and Accra.

As a result of the uncertainty in the future of agriculture and its output, people in Nandom engage in non-farm activities as their second source of livelihood strategy. Men usually focus on wood carving, blacksmithing, poultry keeping, petty trading and bicycle repairs, while the women engage in basketry, *pito*[5] brewing, shea butter extraction and *dawadawa* processing. As with farming, the revenue generated from these works, especially those at the primary sector is low, thus compelling most families to engage in multiple occupations.

There are a few of them who are employed in the secondary and tertiary sectors such as teachers, security personnel, health and banking workers. Manufacturing or processing industries in the area are on small-scale basis and employ fewer than ten persons who are mostly family members. Such small-scale industries include: Shea-butter production or processing; *Pito* brewing; Groundnut oil extraction; Weaving and dressmaking; Pottery and basketry; Carpentry and Masonry; Blacksmithing; Corn milling and Vehicle repairs. The surplus produce from these activities are traded with neighbouring villages/market centres such as *Wa*, *Tumu*, *Lawra*, *Babile*, *Hamile*, *Fielmuo*, *Piina*, *Zongo* and *Samuo*.

With the changing sources of livelihoods, Nandom has become home to many micro-credit institutions all combining efforts to support people income generation activities.

Data and Methods

The data for this study were collected using a household questionnaire administered to 139 households in the Nandom zone in the Lawra-Nandom district. As already stated, the Nandom zone was purposively selected. However, following Adams and He (1995), the villages and the households were chosen using a stratified random sampling. Within the Nandom zone, three list of villages were constructed – those within 5 kilometres of the Nandom town, those within 10 kilometres and those between 10 and 20 kilometres. Villages were then selected randomly from these three lists. The selected villages were enumerated and households were selected randomly from the complete list of village families. Thus, the household[6] is used as our unit of analysis since it is the first place where decisions relating to allocation of resources for consumption, production and investment activities are made.

Data collection took place during the months of May and July 2008. Interviews were conducted by the researchers with the assistance of two male and female undergraduate students from the Wa campus of the University for Development Studies (UDS). We self-administered the questionnaire which contained both quantitative and qualitative themes. Household heads were asked about socio-economic composition and demographic characteristics; size of household; participation in and access to education; type of housing; mode of transportation; asset production and employment activities, on-and-off farm employment activities; income levels; access to rural credit, whether through formal or informal sources; use of credit, and the impact of such credit on household production and consumption, individual, household and community development as well as on poverty reduction in general.

In all, a total of 152 households were interviewed. However, 13 households were excluded because of missing and incomplete data. Thus, our analysis is based on data from 139 households. Data collected were coded for analysis. Descriptive statistics such as tables, frequencies, percentages were used to interpret the information obtained.

Results and Analysis

The analysis focused on four key aspects. The first relates to the demographic and socio-economic characteristics of households, including their livelihood and sources of income. The second assesses the access to

and sources of micro-credit facilities by household members. The third aspect of the analysis looks at the perceived effectiveness of micro-credit institutions and providers. Finally, the fourth analyses the impact of micro-credit on household economic activity and poverty reduction.

Socio-economic Characteristics of Households

Table 1 presents the demographic and socio-economic characteristics of households surveyed. The purpose of this was to determine the economic standing of households.

Table 1.
Socio-economic Characteristics of Households

Characteristic		Number	%
Gender of Households Head			
	Male	61	43.9
	Female	78	56.1
Total		139	100
Age			
	18>25	7	5.0
	25<35	18	12.9
	35<45	34	24.5
	45<55	51	36.7
	55>	29	20.9
Total		139	100
Education (years of schooling)			
	Less than five years	29	20.9
	From five to ten years	53	38.1
	More than ten years	42	30.2
	None	15	10.8
Total		139	100
Household Size			
	Small (Below 4)	8	5.7
	Medium (Between 4 and 8)	39	28.1
	Larger (More than 8)	92	66.2
Total		139	100
Sources of income/livelihood sources			
	Non-farm	35	25.2
	Agricultural	41	29.5
	Livestock	32	23.0
	Rental	10	7.2
	Transfer	21	15.1
Total		139	100

(*Table 1 continued*)

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Characteristic		Number	%
Income in US dollar per day			
	Less than $US1	87	62.6
	More than $US1	52	37.4
Total		139	100
Type of Accommodation			
	Hut with thatch	48	34.5
	Hut with aluminium roof	31	22.3
	Mud house with aluminium roof	24	17.3
	Cement block house with thatch	16	11.5
	Cement block house with aluminium	13	9.4
	Other	7	5.0
Total		139	100
Mode of Transport			
	Bicycle	83	59.7
	Motor bicycle	25	17.9
	Car/Lorry	2	1.4
	Donkeys/Horse	17	12.2
	None	12	8.6
Total		139	100

Source: Authors' Fieldwork, 2008.

In many rural African settings, age and gender determine one's role in the household. Usually, the elderly and male members in the family make the decisions regarding household production, consumption patterns and allocation of resources and labour. Our target in the household survey was household heads. Table 1 shows that women represent 56.1 per cent, while men constitute 43.9 per cent of household heads interviewed.

Generally, due to the influence of the tradition, cultures and values, men still dominate decision making processes within the household in many communities in Ghana. However, Table 1 portrays the rapid increasing incidence of women-headed households in the study area. This may be because of the seasonal migration of males seeking work in the domestic urban markets. It also turned out that many of the women heads were widowed. These phenomena have, however, given women the chance of making household decisions such as allocating of land, labour and other resources between competing needs, in an attempt to optimise welfare.

In terms of age, majority of household heads (36.7 per cent) are between the ages of 45 to 55. The minority (5 per cent) falls under the 18 and 25 years age group. While 24.5 per cent of our respondents are between

the ages of 35 and 45, those in age band of 25 and 35 constitute 12.9 per cent. It must be acknowledged that the variables: gender and age have not been considered as a measure of household poverty in our analysis.

Many of rural household heads (38.1 per cent) have had five to ten years of education, 30.2 per cent received more than ten years of schooling. While, 20 per cent indicated they have had less than five years of education, only 10.8 per cent did not go to school at all. Generally, the educational level of the rural entrepreneurs is low as a larger proportion of household heads have not had more than ten years of education. Low education is expected to have some negative implication on accessing and utilizing micro-credit (as found in a study by Whelan et al., 2004) as well as access to credit information.

Household size is used as a proxy for the economic standing of a household. Often, large families tend to be poorer. There is however no consensus on what is considered 'large' or 'small'. For this study, we considered households with fewer than four family members as being small, those with between four and eight members as medium size; and households made up of more than eight members as large. On this basis, we found that 66.2 per cent of the respondents belong to the *large* household group, 28.1 per cent falls under the *medium* family size category, while only 5.7 per cent constitute a *smaller* family size. All these families have different sources of income.

For the purposes of our analysis in this article, total income is divided into five sources: off-farm, agricultural, transfers, livestock and rental. Not much difference exists among the income sources of the respondents (see Table 1). Agricultural income (from the sale of crops like millet and livestock like cows) constitutes the largest share of household income. Quite a significant percentage (25.5 per cent) derives their income from non-farm sources, however. Therefore, households' incomes come from multiple sources (see Table 1).

But has the involvement in multiple household livelihood activities translated into increased incomes per day within the household? Majority of the households (62.2 per cent) fall below the one dollar per day poverty line. Only 37.8 per cent is above the one dollar per day threshold. In rural Ghana, the size and type of house one lives in determines one's economic status. From our study, 34.5 per cent majority of the households live in huts roofed with thatch. 22.3 per cent live in huts with aluminium roof while 17.3 per cent have their houses built with mud and roofed with aluminium. With reference to the use of cement, only 11.5 per cent have

their houses built with cement but roofed with thatch whereas as low as 9.4 per cent built their houses with cement with aluminium roofing. Also, lack of adequate, reliable transport penalizes households engaged in cash crop farming, non-farm employment opportunities and access to social services. On this score, we adopted the mode of transportation as another indicator of poverty. Transport is an *intermediate* service – it is a means to an end. While transport alone cannot reduce poverty, it plays a complementary role (Gannon and Liu, 1997). Transport reduces *absolute* poverty mainly by increasing economic efficiency – by lowering costs and prices and enhancing opportunities (Ibid.). Our analysis shows that only 1.4 per cent of rural households use cars for their activities. The majority (59.7 per cent) use bicycles. The rest (17.9 per cent) use motorbikes (12.2 per cent) use donkeys, while 8.6 per cent have none. The analysis has shown that the means of efficient transport system in the area is generally low.

Given the limping socio-economic nature of households, depicting the degree of poverty and their involvement in both on-farm and off-farm rural livelihood activities, we need to analyze the impacts of poverty-targeted intervention (micro-credit) on household production, consumption and non-farm employment, as well as the contribution of micro-credit to overall poverty reduction within the household and community. In order to do this effectively, we have to understand the sources and terms of micro-credit.

Sources and Terms of Rural Micro-credit

All respondents stated that they have received some form of credit at one point in time or another. To investigate the sources of such credit, we divided micro-credit into two 'formal' and 'informal' sources. We defined formal credit in this study as credit facility requiring formal application procedures and paper documentation. These include credit from rural banks, micro-finance institutions, credit unions/groups, revolving credit facility or *susu*[7], money lenders and NGOs. In contrast, we considered informal source of credit as money obtained without formal application processes or paper documentation from family members/relatives and friends. We found that the share of informal credit (57.4 per cent) in total micro-credit is bigger than formal micro-credit (42.6 per cent). The non recourse to stringent credit conditions (like collateral security) explains why informal micro-credit is more popular. Informal creditors mainly rely on the trust of borrowers to pay back.

The remaining 42.6 per cent who access formal sources of credit do so because formal credit sources give more money, though often *on condition* that the borrower can provide collateral security. According to the respondents in this category, collateral security could be in the form of houses, parcels of land, economic trees (e.g., Shea or *dawadawa* tree), livestock (e.g., sheep, goats and cattle), cars and bicycles. Others are jewelleries and cloth. Interest payable on formal micro-credit ranges from 2 per cent to 18 per cent.

While this signifies the notion of self help within the facility and community, it raises some important issues. First, there are perhaps not many formal credit facilities in the community which rural population can tap into. Second, there may be such credit facilities but resource-poor households are severely disadvantaged due to usurious credit conditions such as high interest rates, high-priced collateral security normally associated with formal credit facility. How do rural people use credit and what visible impact has this on individual household and the community in general? This is the thrust of our next section.

Impact of Micro-credit on Household Development

To measure the impact of micro-credit at the household level, we examined the following: the use of credit; improvement in productive capacity; improvement in income level; improvement in household welfare as a whole; improvement in the life of members of the household, household saving behaviour; and whether or not households use their income in ways that directly contribute to community development. Table 2 illustrates the results from our analysis.

55.4 per cent of the households invested the credit they obtained productive activities at the farm level and non-farm activities such as small-scale home enterprises. A smaller percentage (2.9 per cent) explained that they had used their loans for activities difficult to account for. A significant proportion (41.7 per cent) indicated they had used the credit for consumption smoothing. They cited other unexpected family expenditures such as having to pay hospital bills, pay school fees, electricity bills and other household expenditures. While such consumption smoothing can improve the quality of life of the poor, it could also push them further into debt, if they cannot repay the loan out of enhanced income streams (Fisher and Sriram, 2002). This finding demonstrates the inherent nature of *fungibility*[8] of credit within the household.

Table 2.
Impact of Micro-credit on Household and Community Development

Item		Number	%
Use of Micro-credit			
	Household Consumption	58	41.7
	For productive purposes	77	55.4
	Other	4	2.9
Total		139	100
Production Capacity			
	Some improvement	79	56.8
	Lots of improvement	38	27.3
	No improvement	22	15.8
Total		139	100
Income and profit level			
	Some improvement	65	46.8
	Lots of improvement	41	29.5
	No improvement	33	23.7
Total		139	100
Improvement in household welfare			
	Some improvement	60	43.2
	Lost of improvement	47	33.8
	No improvement	32	23.0
Total		139	100
Improvement in social life			
	Some improvement	62	44.6
	Lots of improvement	69	49.6
	No improvement	8	5.8
Total		139	100
Contribution to rural development			
	Yes	62	44.6
	No	49	35.3
	Do not know	28	20.1
Total		139	100

Source: Authors' Fieldwork, 2008.

This use of credit for household activities led us to assess the production capacity of households. Respondents were asked whether the loans improved their production capacities. 56.8 per cent households indicated micro-credit to some extent had improved their production level. While 15.8 per cent felt their production capacity remained the same, a significant percentage 27.3 felt they experienced lots of improvement. Has the modest improvement in production level translated into increase in profit or

income level? It was difficult measuring this variable since no records on income and expenditure was kept by households. For that reason, perceptions were sought. The expectation was that access to credit and improvement in productivity should lead to increased income and profit at the household and enterprise scale. Our survey showed that 46.8 per cent of households indicated their profit and income level had 'improved marginally', 29.5 per cent witnessed 'lots of improvement' in their income and profit level, while 23.7 per cent had their profit and income 'remaining the same'. The general picture is that credit has some positive impact on income and profit at the rural enterprise level. However, the lack of record keeping observed among these households suggests that reported profits may be subject to a range of different types of measurement error. The lack of record-keeping appears to be a general phenomenon among rural households and small businesses in developing countries (de Mel et al., 2007).

The impact of credit on family household welfare was measured by asking respondents to indicate their ability to pay for living cost and buy other household items that lead to improved quality of life and welfare levels at the household. Items included were: school fees, electricity bills, hospital bills, water bills, clothing cost, rent, ability to buy food and ability to settle debt, their ability to acquire some personal items like cloths, shoes and bicycles as pointers of improvement. The result shows that majority of households have witnessed a slight improvement in their welfare. Specifically, 43.2 per cent indicated they have seen some improvement in their family welfare, 33.8 per cent stated they experience lots of improvement, the remaining 23.0 per cent believe their welfare level within the household is the same.

On the social aspect, household heads were asked to indicate their ability to build social networks, reduce isolation, socialise with friends and attend other social gatherings as well as being more connected to the community. 44.6 per cent of the respondents indicated there had been some improvement in the quality of their social life in the past one year. While 49.6 per cent felt 'lots of improvement', only 5.8 per cent said they experienced 'no improvement'. Credit results in improved quality of personal life which in turn leads to an improvement in social capital (an important component in livelihoods development). To some extent, it leads to improving self esteem and confidence (social capital) too.

We also sought to investigate the extent to which improved standard of living contributes to rural development. Household heads were asked

to indicate whether they contribute to community development. This was measured using 'Yes/No' and 'Don't know'. While 44.6 per cent responded they do contribute part of their income to community development, 35.3 per cent said they did not contribute part of their income towards the development of their community. The remaining 20.1 per cent were not sure. The result from this is indicative of the fact that credit per se is not adequate to significantly increase rural development and hence enable rural people's physical contribution to rural development. The reasons could mean that much of the income is spent on basic needs such as education, food, water and health.

Concluding Remarks

Does micro-credit enhance or impede poor people's productivity? Existing studies on micro-credit have no consensus on this question. To many, micro-credits can improve the income of the poor and in some cases move the income of poor households above the poverty lines. To some, micro-credit does not go to the poor; it bypasses them. To others, even when the poor receive micro-credit; it does not move them out of poverty, it simply makes them laid-back. Yet, the widely held view is that micro-credit promotes the creation of household and rural businesses and enables micro-entrepreneurs to employ other poor people and hence helps to ameliorate poverty. The lack of harmony on these views was the reason for carrying out this study in Ghana.

Our study shows that although households derive income from multiple sources, majority still live below one dollar per day and hence can be considered poor – by this measure. Households are able to access credit from both formal and informal sources to supplement their meager income and household livelihood activities. But while some rural households invest such loans in both on-farm and off-farm economic activities, the majority divert the loans into consumption smoothing within the household, reaffirming the notion that micro-credit is fungible within the household. Thus, microfinance and the impact it produces, go beyond loans for micro business loans. These findings are consistent with findings by Littlefield et al. (2003) and World Bank (2002).

There is some evidence that micro-credit has had a slight impact on their productivity; household welfare; social lives and they are also able to contribute moderately to rural community development. Generally, the impact of micro-credit is this generally modest at the household and enterprise level.

These findings contribute to our understanding of the nexus between micro-credit and rural development. The findings have policy implications. There is the need for alternative approaches in poverty-alleviation programmes aimed at in-corporating rural people in the process. As Leinbach (2003) argues, within the confines of household livelihood enterprise programmes there is a crucial role for credit, particularly for the poorest of the poor who find it hard to accumulate even the small amounts required to start a livelihood enterprise. Since credit is also the easiest input to deliver on any scale, there is a role for livelihood programmes carefully focused on the poorest of the poor, such as the Grameen Bank NGOs, even if they are 'minimalist' (i.e., credit only). They must be aware, however, of activity-specific constraints and the danger of market saturation. They need to monitor profitability carefully and be 'interventionist' in choice of activity. While it may not always be possible to pick winners among activities, close feedback will reveal activities that need to be discouraged.

Improving the effectiveness of micro-credit may not just be a question of increasing the quantum of credit. It may also be an issue of including some basic education in the micro-credit 'package'. Again, it may be a question of introducing very basic local taxes to ensure that community development is not simply for the pleasure of beneficiaries of micro-entrepreneurs. Simply put, micro-credit programs should be more holistic than they currently are. There may also be scope for increasing vital non-credit inputs, some of which we considered. However, the comparative advantage of these programmes will always be credit. Furthermore, it is important to determine whether the benefits of micro-credit to beneficiaries are sustainable and large enough to make a dent in the poverty and welfare of people and society at large, is important for guiding policy. Finally, now that access to financial services for poor people is increasing, the highest priority should be to focus on responsible lending at all levels of the chain, from the MFIs to their borrowers and from lenders to the MFIs (Rebledo, 2008).

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NOTES

1. Microfinance is the provision of financial services such as loans and savings to the poor (Joanna, 2000; Schreiner, 2002). The range of services it provides includes loans, savings facilities, insurance, transfer payments and even micro-pensions (Littlefield et al., 2003). Approximately 10,000 Microfinance Institutions (MFIs) have evolved worldwide over some three decades – in an amalgam of non-governmental organizations (NGOs), commercial banking entities, credit unions, cooperatives and finance companies.
2. For example, as Rebledo (2008) enumerated the success stories of the microfinance sector in Bolivia and some South American countries, he also noted factors such as increased client over-indebtedness, thin margins, currency risk and high leverage as some of the most aggravating factors crippling the sector. Ashcroft (2008) did a similar analysis for Africa.
3. In this study, we use the terms micro-credit or microfinance interchangeably.
4. Tripathi was commenting in the UK's Guardian Newspaper on the announcement in October 2006 that Muhammad Yunus, the founder of Bangladesh's pioneering micro-credit institution, the Grameen Bank, had won the Nobel peace prize.
5. *Pito* is local drink brewed from guinea corn or maize mainly by women.
6. Conceptually, the household is the unit within which decisions affecting economic welfare are made – decisions about the allocation of resources for consumption, production and asset accumulation. Operationally, the household can be defined in terms of the group of people who normally live together and eat from the same 'cooking pot' (AIMS, 2001).
7. *Susu* collectors are known to have plied their trade and Ghanaian markets for at least three decades. It is a form of revolving credit in which a collector makes his/her daily rounds and collects a certain amount, say GH¢2 (about US$1.40867) over a 31-day rolling period from each of his customers. At the end of the period, the collector pays out lump sums to the customers, while retaining one day's payment from each customer for his services. In larger collectives (e.g., women group), selected members receive lump sums each month while the others wait for their turn and the ball keeps rolling.
8. One of the constraints fungibility assumes it that any unit of wealth, present or future, is substitutable for any other (Winnett and Lewis, 1995).

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