

The role and impact of microfinance institutions on Ghana's economy.



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ASSIGNMENT (a) Using the 8 questions in page 75 of your text book but start reading from page 71 under the heading of - Determining what to research, and stop at the 8 questions. , propose a research topic and Justify it choice. Proposed Research Topic: The Role and Impact of Microfinance Institutions on Ghana's Economy. Topic Area: The topic is on Microfinance and the Impact It has on Ghana's Economy. Microfinance is often defined as financial services for poor and low-income clients offered by different types of service providers.

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. It includes loans, savings, insurance, transfer services and other financial products and services. The concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures.

For example, available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic Missionaries. However, ' Susu', which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century. Over the years, the microfinance sector has thrived and evolved into its current state thanks to various financial sector policies and programmes undertaken by different governments since independence, 1957.

Among these are:

- Provision of subsidized credits in the 1950s;
- Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;
- Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions. The policies have led to the emergence of three broad categories of microfinance institutions. These are:

- Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;
- Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;
- Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals.

Microfinance is one of the critical dimensions of the broad range of financial tools for the poor, and its increasing role in development has emanated from a number of key factors that include:

- The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life;
- The realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans;
- The observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and

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savings services amongst the poor; • The view that microfinance is viable and can become sustainable and achieve full cost recovery; • The recognition that microfinance can have significant impact on cross cutting issues such as women's empowerment, reducing the spread of HIV/AIDS and environmental degradation as well as improving social indicators such as education, housing and health.

Studies have shown that micro-finance plays three broad roles in development: • It helps very poor households meet basic needs and protects against risks, • It is associated with improvements in household economic welfare, • It helps to empower women by supporting women's economic participation and so promotes gender equity. Micro-finance also creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of micro-finance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so Micro - Finance Institutions (MFIs) have emerged to address this market failure. By addressing this gap in the market in a financially sustainable <https://assignbuster.com/the-role-and-impact-of-microfinance-institutions-on-ghanas-economy/>

manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).

These are the reason why I saw it necessary to research on micro-finance to bring to the notice of the public and the country as a whole its roles and benefits in other for it to be given the proper attention and encourage those who are interested in that area to invest in them. It will also broaden my knowledge in the area of banking and finance, though not a formal banking institution. I will have the know how of the area and understand it better as I move on with my course. Those who have not paid attention to micro - finance will also get to know about it especially the participants and this will encourage them to be bold and free when dealing with micro- finance companies. The Government will also realize the Institutions in the economy that is helping to achieve it goals.

It must be noted that Ghana is a middle income country and the income disparity is moderate with a Gini Coefficient of 0. 396, and 39. 5% of the population lives below the national poverty line (HDR 2003). In absolute terms, 44. 8 % of the population lives below a dollar a day while 78. 5% of the population lives below two dollars a day (HDR, 2003). Most of the people cannot afford or meet the requirement of formal banking sector hence the only alternative of Micro - Finance Institutions and the need for attention to be given to the micro-finance sector. What I want to find out: I want to find out if the concept of micro-finance is on course and if so find in reality its achievement and impact on Ghana's economy.

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I also want to know if the clients are satisfied with the service provided and if the aim for which the services are provided are achieved. How does the government come in concerning micro-finance? How is it benefitting the government and the more reason is to encourage the growth of microfinance in the country if it is benefitting the people and the country as a whole. What kind of questions will provide the most accurate data? ? How is micro-finance contributing to Ghana's economy? ? What is the benefit of micro - finance to the Clients, Government etc... ? How many of Ghana's population are benefiting from micro-finance? ? How is economic growth related to micro-finance? Should Investors be encouraged to go into micro-finance? ? How is the government contributing to the success of micro-finance in the country? ? Is the aim of establishment of microfinance being realized? How will the data be collected? Data collection methods that will be used for the research are Questionnaires, Interviews and Observations. The questionnaire will be used for Quantitative data collection and the Interviews and observation will be used for Qualitative data collection. How will the data be analyzed? Quantitative and qualitative methods of analyzing statistical data will be employed in the analysis of data. Who is the audience for the findings and who else may be registered?

The audience of the findings is the Government, Clients, and Micro-finance Institutions and the populations as whole to see how the area of micro-finance is thriving. The contribution this research will make to Knowledge: Get to know the factual impact micro-finance is making to the Ghanaian community and the role it's playing in Ghana's economy. What are the benefits of the participants? Those participating in the research will have the

benefit of understanding the nature and work of micro-finance better. That is get to know how it operates and the history and facts about what they are into. (b) State the method(s) that you will use to conduct the research. ?

Qualitative method ? Quantitative method