HOW RELEVANT IS MICRO FINANCE TO SUSTAINABLE RURAL LIVELIHOODS? A CASE STUDY OF THE ZUURI FARMERS IN NORTHERN GHANA.

INTRODUCTION.

The United Nations Capital Development Fund has declared the year 2005 as the year of micro finance. To this end, there will be opportunities and challenges to development organisation and private micro finance institutions in promoting micro finance and ensuring its sustainability. There are several views on the role of micro finance in sustaining livelihoods. Some development experts believe that, while savings are beneficial to the poor, credit has the tendency to tighten the grip of poverty by exposing economically vulnerable people to high risks and increasing the likelihood of a livelihood crisis (Hulme and Mosely 1996 in Johnson and Rogaly, 1997). Others however believe that with adequate involvement of larger financial institutions and full support of all levels of government, micro finance could be the ledge with which the poor can climb over the poverty line. More recently, there is the debate on accepting the provision of financial services as a human right by making it accessible to every individual as the denial could more or less translate to social exclusion (Wood 2001).

The following paper is intended to illustrate how micro finance could be an opportunity to attain sustainable livelihoods in practice. The paper will therefore focus on micro finance in relation to sustainable livelihoods rather than on micro finance institutions and their mode of operation. To organise this essay, it shall be divided basically into three parts, the first part will briefly discuss the history of micro finance and it’s role in sustainable livelihoods with some highlights of the challenges faced in assessing the impact of micro finance interventions while the second part will introduce a model and explain the relevance of the model to opportunity creation through micro finance. The final part will focus on a case study of the Zuuri people of Ghana and how micro finance interventions by the Zuuri Organic Vegetable Farmers Association (ZOVFA) has affected the people’s livelihoods by linking the outcomes of micro finance intervention to level of vulnerability and capital endowment of the people.

Micro Finance And Rural Livelihoods.

The journey of micro finance dates as far back as the 1950’s when development projects began to offer subsidized credit facilities to target groups of people. However, these first attempts were largely unsuccessful as the capital base of such rural development banks were eroded by poor repayment rates and the cost of subsidizing the credit. Moreover, the credit facilities did not really reach the poorest of the poor as the richer rural farmers had collateral advantage and therefore better access to the credit schemes. Following that period, the 1970’s heralded a lot of criticism of the subsidized credit approach and gave way to experimental micro enterprise programmes for women in countries like Bangladesh and Brazil. These micro enterprise credit facilities were guaranteed by social collateral whereby a group

1 Transaction costs did not include costs like non repayment risks, enforcement costs, supervision costs and transport to geographically isolated areas among other costs that could not be covered by the subsidized interest earned from such micro credit schemes (Johnson & Rogaly, 1997)
of women would collectively guarantee the loan individual members of that group (The Consultative Group to Assist the Poorest - CGAP). Although, these schemes recorded more success than the subsidized credit schemes, actual impact on livelihoods and poverty reduction was not given so much attention at that time.

Today, micro finance has come a long way to become a popular topic in development discourses. The debates have acknowledged that the multidimensional nature of poverty is an indication that the solution can hardly be simple and straightforward. (Cohen & Sebstad, 2001) Current concerns include how to both deepen and widen the reach of micro finance by making it accessible to all while maintaining institutional sustainability (Wood 2001). The challenges facing the micro finance world today include targeting micro finance services to reach the poorest of the poor and not just the better off poor while monitoring the impact of on livelihoods. According to Cohen & Sebstad, most impact assessment focus largely on income and consumption pattern related indicators, which are unable to capture the dynamic nature of poverty rather than it’s effects on reducing vulnerability of clients and their households.

The Livelihood Model

Although there are quite a few livelihood models available, for the assessment of micro finance interventions as an opportunity for sustainable livelihoods, the DFID livelihoods framework and Room’s snakes and ladder model seem to be more appropriate. The snakes and ladder model has the advantage of providing negative (snakes) and positive (ladders) scenarios over a period of time but does not give room for details on strategies and livelihood outcome (it summarises outcomes into bliss and social exclusion which may not capture reality). The DFID framework on the other hand manages to present a clearer picture of strategies and outcome. However, both models do not include the effect of sustaining a community’s livelihood on others\(^2\) and also do not present the interrelationship between the framework and national and international levels. In presenting the following case study, the DFID livelihoods framework will be employed and the link back to vulnerability context and capital endowment will be provided in theory.

The Case Study

Africa is often perceived of possessing characteristics like widespread aridity and general shortage of financial and technological resources. During the 70’s the Sahel region famine and current food shortages in various parts of the continent showed the vulnerability of the whole agro eco-system to adverse weather conditions, particularly that of subsistent farmers and their families who are wholly dependent on agriculture (Blench & Kranjac 1999). This vulnerability is further enhanced by a lack of capital and technical skills to enable these poor families plan for and respond to environmental changes among other issues. A typical example of can be found among the Zuuri people of Binduri district who are located in the upper east region of

\(^2\) According to the DFID sustainable livelihoods guidance sheets, livelihoods are considered sustainable when they do not undermine the livelihoods of, or compromise the livelihoods option of others.
Northern Ghana (An area of semi arid savannah and one of the poorest parts of Ghana).

The majority of Zuuri people engage in subsistence agriculture and make a livelihood from sale of rainy season crop production, poultry farming and vegetable gardening during the dry season. However, the farmers are still grappling with poverty due to factors like lack of capital, soil fragility, exploitative trade and lack of technical skills. The adaptation of the DFID livelihoods framework below is an attempt to contextualize the vulnerability of the farmers and the livelihood outcomes of micro finance interventions by the Zuuri Organic Vegetable Farmers Association (ZOVFA) in the community.

The vulnerability context of the farmers can be broken down as follows:

**Structural Factors:** In the case of the Zuuri people, these factors include seasonal variations, inflation, soil fragility, crop pests and diseases, droughts and price fluctuations. The risks arising as a result of vulnerability to structural factors are covariant and usually have long-term effects and could result in loss of income and sustenance. (Wright et al 1999 in Cohen and Sebstad 2001). These structural factors could have an effect on both financial and physical capital as unbearable conditions or total destitution may force people to migrate as a coping strategy.
**Unanticipated crises and emergencies:** Although unanticipated crises and emergencies include loss of employment, fires, flood and theft, the most relevant and most difficult to manage for rural farmers and majority of poor people in general are illness and death these may result in loss of income of a member of the household or the whole household if the household income earner is affected.

**Lifecycle events:** Marriages, funerals, childbirth, education, and rituals. These are anticipated low frequency economic risks, which the poor are vulnerable to. The vulnerability of the rural Zuuri farmers to life cycle events is further heightened by the dependence of rural families on only one source of income (small scale subsistent agriculture).

After the introduction of the loan and credit scheme coupled with training and assistance by ZOVFA, the farmers were able to store and transport their produce to the South and earn well over 100% more than they were being paid by exploitative urban traders who came to purchase from them when they were unable to afford the cost of transportation. This had a direct impact on their financial capital and reduced their vulnerability to life cycle events and unanticipated crises and emergencies as the extra income meant they could put away some money for the rainy day. The provision of technical training alongside the credit facilities meant the farmers had a better yield and could afford storage of grains for the dry season which in turn had an impact on human capital (part of the coping strategy for poverty is migration) while reducing vulnerability to seasonal variations.

**Conclusion**

Although the case study briefly examined shows how a particular micro finance intervention made positive changes in a community, the reality is that such interventions are neither easy to transplant in all other communities nor replicated on a larger scale with similar results. Also, there are quite a number of micro finance projects that have failed for various reasons including but not limited to poor repayment rates leading to lack of sustenance as well as lack of effective training workshops for the targeted community on money management skills.

In tackling the relevance of micro finance interventions in sustaining rural livelihoods, there is a need to re emphasize the opening notion that the multidimensional nature of poverty requires more than any simple single solution. In order to ensure sustainable livelihoods, there is a need to apply multiple strategies of empowerment and asset creation at the same time. According to Mosser, 1998, the way in which an individual resists and responds to risk are inherent in the entitlements and assets that the individual or household can mobilize in times of crises and other hardship therefore, the more assets an individual/household possesses, the less vulnerable they are. Microfinance is an option that could enable the creation of financial assets, which has a

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3 According to aAfrica Initiatives, the Financier of ZOVFA, loan repayment rates were over 92% and women were able to contribute additional income to the family budget.

4 Assets here include physical, human, financial, natural and social capital.

5 Microfinance here refers to various financial services including but not limited to credit, savings and insurance.
great influence in creating other assets and reducing vulnerability. This can be done through credit and savings schemes, life insurance for the poor. However, microfinance has its limitations in the sense that most microfinance projects have a single focus on the microcredit aspect of financial service provision rather than adopting a multiple option approach by encouraging peasants to develop a savings culture while taking advantage of credit facilities. For example, in an impact assessment study of FINCA\(^6\), Malawi, it was discovered that some microfinance institutions insist on incremental\(^7\) lending to the poor in spite of the fact that some of the business ventures for which loans were taken out had limited capacity for feasible expansion. (Johnson 2004)

Also, the success many microfinance projects are determined by their level of repayment and financial sustainability rather than reach\(^8\) and social impacts. Social impact itself is measured in terms of empowerment and reduced vulnerability but according to Rowlands 1997, in Johnson, 2003, empowerment is an imprecise term that is difficult to measure therefore the assessment of social impacts of microfinance becomes more problematic.

Finally, in spite of the limitations of microfinance, it’s relevance in the quest for sustainable livelihoods is not in question and microfinance experts concur that not only do stronger financial asset base smoothen income and consumption while increasing resistance to shocks and downward economic pressures, access to credit also acts as a fall back during difficult times without pawning income generating assets. (Rutherford 1999)

Bibliography


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\(^6\) FINCA is an international micro finance NGO operating in 15 countries.

\(^7\) Increasing the loan amount periodically as repayment is achieved.

\(^8\) by reach, I refer to their accessibility to the poorest of the poor