

Annex 2:

The case study of Ghana:

Ghana Friendship Groups in Denmark

Micro-credit activities in Northern Region, Ghana

Background

A micro-credit scheme was attached to the integrated rural development programme, Ghanaian Danish Community Programme (GDCP) in 1992. The programme is funded by Danida through the Danish NGO the Ghana Friendship Groups in Denmark, who implements it jointly with the Ghanaian NGO Ghanaian Danish Communities Association (GDCA). The programme has grown rapidly during the first couple of years, in terms of the number of beneficiaries and women groups involved. In recent years the number has stabilised itself around 750 – 950 beneficiaries a year. 40 to 50 women groups are supported with loans, trained in the relevant income generating activities, and supervised regularly during the loan repayment period.

Application Procedure

The programme is demand-driven as it is based upon applications directly from the women groups, through their local committees, to the programme. Upon receipt of an application, the Loans department of GDCP visits the group, together with a Co-operatives Officer attached to the local government in the area to discuss their business idea with them, work out a budget, and inform of the possibilities of getting loans according to the guidelines. The processed application with the agreed budget is then forwarded by the Loans co-ordinator to the NGO committee in charge of choosing which loans to recommend for later approval by the Executive Committee of the NGO. After approval is given by the Executive Committee the group is contacted by the Loans sector staff, and the loan cycle is initiated.

Loan cycle

After approval of the loan, the group is visited several times by the Loans sector staff together with the Co-operatives officer of the local government. The group is animated on various aspects of group functioning and accounting, and often also informed on various other aspects such as health, sanitation and nutrition issues, depending on what the women themselves request for. Also the group leader, treasurer and secretary goes to the Adult Training Centre for training.

At the loan disbursal, two guarantors will co-sign the loan agreement together with the woman herself. Each woman is then given a loan card to keep, where all repayments from then on will be registered and signed for. After the agreed grace period has passed repayment starts. A loans clerk from the GDCP visits all the groups with short intervals at agreed days (often market days) to collect the money directly from the group members at a meeting. This arrangement has been put in place within the last few years. Formerly the women paid to a secretary, most often a man due to their own illiteracy. But, time and again many groups had problems with this model, as the amount paid by the secretary on the women's behalf did not correspond to the amounts the women had paid to the secretary. At one point, the Programme decided to send the secretaries who had embezzled the women's money, to court, and that, together with the direct money collection, has improved performance a lot.

Evaluation

After each loan cycle, an evaluation is made (a sample can be seen in the Annual Report for 2000 for GDCP). The women discuss the impact of the loan, the concrete benefits that they have had from it, the way the loan have been utilised, the group activities, and general problems. The comments are then taken into account in planning next years loan cycle.

Limits on Loan Activities

Presently, based on years of experience, loans is given exclusively to processing activities (sheabutter processing, rice parboiling, groundnut processing) which are activities in which the women are already engaged, and with which they have years of previous experience. The loans are not given to:

- Agricultural activities considered risky, as the risks are too high, of indebting already poor people due to erratic climatic conditions.

- Processing activities demand a high integration of the whole groups economy (like a jointly owned grinding mill, for example).

It is the experience of the programme, that with the present low level of literacy, the women will have to rely on men for the accounting, and are not equally able to check the accounts. This makes the group too vulnerable to irregularities, and that can easily eat their profits, and undermine the mutual trust and co-operation.

Maximum of 25 Group Members

From experience, the size of the women groups has been limited to 25 members. This is often a tricky demand for a new group applying for the loan, and a lot of diplomacy must often be exercised to handle this demand. Deciding who should leave the group, if the number is too high, is not easy.

Joint responsibility, but individual economic control

What most groups do is to be jointly responsible for each others loans, but to split the loan amount equally among the women, and let every woman handle her own purchases and processing activities as she see fit. What the group then contributes to each other is labour. They often take turns, sometimes in smaller sub groups, in helping each other conducting the physical work involved in the processing activities.

Without Loan: Limited Processing Period

The loan amount depends on the activity, but is usually somewhere between 20\$ and 50\$. The calculation of the amount needed is based on the current market prices of the raw materials at the time of loan disbursement. As capital is the critical factor for the women in these matters, what they do without the loan is that they start on what they themselves have harvested, and then process, sell at the weekly market, buys new raw materials to send home and process before the next market. What happens without the loan is that the women's cash needs are larger than the profit, which results in the spending of the capital. In this case, the amount of raw materials that can be purchased for the processing steadily deteriorates, until the processing activities comes to a halt because there is no capital left to buy raw materials. The success criteria for the women, then, without the loan, is for how many weeks or months she can keep up the activity, until the capital is spent.

With Loan: Continuous Processing

The capital that the women lend from the micro-credit scheme, allows them to start off with a larger stock of raw materials, and to process a larger amount between each market day. This normally increases their profit margin to fit or exceed their needs for cash, with the results that the women, depending on business skills and market access, is left with 30-50% of the original loan amount as capital, even after they have finished repaying the loan. The success criteria for the women, then, with the loan, is that the loan can be repaid from the profit of the activities, and that there is then still profit left to cover the cash needs, and maybe even some surplus. With the loans, in other words, the processing activity is allowed to go on the whole year through.

“Borrowing People into Bankruptcy”

The critical experience from GDCP, which has resulted in the very specific guidelines on which activities loans can be given for, is that extreme care should be exercised in order not to “borrow people into bankruptcy” so to speak. That is, if the business does not make the necessary profit, people will indebt themselves to repay the loan, and they would end up being worse off than before the loan.

Gender balance

In order not to create imbalance and resistance among the men, 33% of the total loan fund amount is reserved for plough-loans, which is a loan type typically targeting the men. Against a down payment of half the prize, the men are given the plough and/or other accessories to enable them to plough with bullocks or donkeys. One year later, after harvest, the remaining amount is to be paid. Each year, some choose to pay the full amount upon receipt of the plough. The plough loan is not utilised by the men up to the budgetary limit. This is partly caused by the fact that no loan can be given to a community where someone is defaulting a plough loan, and that limits the number of applications somewhat, as the men are often not as steady in repaying as the women. In the period from 1994 to 2000 between 86% and 98% of the Loan Fund beneficiaries have been women.