POVERTY LEVELS AND POPULATION DENSITY: DO THEY MATTER FOR MICROFINANCE AS A DEVELOPMENT TOOL?

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ABSTRACT

Microfinance as a development tool has the objective of alleviating poverty. Over the years microfinance institutions have multiplied in numbers engaging in variety of poverty reduction programmes. Using all MFIs, poverty levels of less than one dollar a day and district population figures, the study seeks to find out what attract microfinance institutions into a particular location. Is it poverty incidence or population density that serves as pull and push factors for MFIs to concentrate in any of the ten regions of Ghana? The study indicates that institutions are established in areas where there are economically active potential clients and not just poor people. MFIs are not driven by poverty incidence but rather the size of population in a particular area. Districts that have high levels of poverty but sparsely populated will not attract MFIs as is witnessed in the northern Ghana. This means that such will continue to be under-developed.

INTRODUCTION

The principal objective of microfinance programs is to raise incomes and broaden financial markets by providing financial and no-financial services to the financially excluded people (Armendariz de Aghion and Morduch 2000). Microfinance targets the poor and the economically active poor in the society to assist them create wealth, accumulate assets and raise income to smooth consumption. In Ghana poverty incidence is skewed against the northern sector of the country even though population is sparsely distributed in the northern sector. The southern part of Ghana is densely populated for several reasons among others; resource endowment, favourable climatic conditions, availability of job opportunities, etc. another factor that might contribute to the sparsely populated distribution in the northern part of Ghana is due to the fact that people migrate down south in order to seek for greener pastures. It is on record that microfinance institutions aim at reducing poverty among the financially exclude people worldwide. Taking this primary objective of MFIs into consideration one expects those MFIs are concentrated in the three northern regions where the incidence of poverty is crucial (GLSS 1, 2, 3 and 4). However a different picture is seen. The number of MFIs operating in the southern zone far outweighs that of the northern sector which ranks last in terms of poverty (GLSS 4). The question that comes to mind is what factors motivate MFIs to establish in the heavily populated areas of Ghana. What are the characteristics of densely populated settlements that attract MFIs? In general the objective of the study is to verify the factors that account for the district and regional concentration of microfinance institutions in Ghana. The specific objectives of the study are as to:

1. determine the extent of poverty incidence and population density across the ten regions of Ghana.
2. establish the relationship between poverty levels, population density, economic activities and microfinance institutions across the ten regions of Ghana.

The study is justified on the grounds that the distribution of microfinance institutions is skewed against the northern part of Ghana. This has several implications for the development agenda of the country.

METHODOLOGY

The study will basically involve the use of secondary data. Data on microfinance institutions including Rural and community Banks (RCBs), is made to capture all MFIs operating in Ghana. Using data from the GLSS 4, poverty levels for the 130 districts are extracted vis-à-vis the population density for each district. An OLS is used to establish the relationship between number of MFIs on one hand and poverty incidence, population density, and number of SMEs or economic activities (proxy) on the other.

RESULTS

The results of the study suggest that MFIs create market niche in areas where there is high population density and small scale economic activities going on. It also reveals that even though microfinance has been identified as a tool for reducing poverty, to the contrary they rather create market niche in districts with high population density and concentration of SMEs. This informs us about the fact that MFIs are profit driven rather poverty reduction. The regression result suggests that economic activities and population density are fundamental in determining where to establish an MFI and which target group to reach.

CONCLUSION

The result of the study throws more challenges to MFIs as they try to scale up poverty reduction in developing countries If MFIs are poverty focused, then they should focused on targeting high poverty areas in order to make impact on the lives of the people. This means there should be trade off between poverty reduction and institutional sustainability. Institutions should be motivated and guided by regional and district differences in poverty and population incidence to make an impact on the livelihoods of the people. It is only that can MFIs be seen as poverty reduction and development tool.