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**The Role of Chieftaincy in Financial Inclusion:
A Case Study of Eight Rural Communities in the Northern Region of Ghana**

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Ghana

Summer 2011

RESEARCH EXPERIENCE

Christopher Suzdak, Ghana, Summer 2011

While in the field, I conducted over 200 interviews with a variety of key actors in Ghana's emerging microfinance industry. This included interacting with local farmers, traders, chiefs, microfinance practitioners and local politicians. Respondents' insights illuminated cultural and political constraints that my economic analysis attempts to identify. In this way, this fellowship has enabled me to contribute to a scholarly topic that I am passionate about.

As interviews led me through a variety of communities, I witnessed the day-to-day constraints of a culture very much in transition: market women checking a cell phone for crop prices before walking ten miles to sell their supply; a university student hauling an entire outdated desktop computer on his bicycle to write his agricultural engineering term paper. The contrasts across the development spectrum are astonishing, and misleading at the same time. Many of the conclusions I have made based on my field research on how the traditional chieftaincy system in Ghana impacts financial inclusion, specifically access to microfinance services in rural villages, were far from my original hunch.

Much of the developing world is misunderstood because it is inappropriately grouped together and its cultural structures misinterpreted. Ghana is unique in that the traditional chieftaincy institution has been successfully embedded in the country's democratic constitution. What might seem like an autocratic leadership system at first glance is in fact a very effective, community-based governance structure. The chief and the elders weren't the all-powerful gatekeepers as I had imagined – after understanding my project's purpose, they proceeded to gather the entire community to have them listen to my proposal. The chief would let the entire community decide whether they thought the time and effort of answering my questions could possibly benefit them in any way – a bottom-up approach to dealing with visitors. The same entry process applied for any outside non-profit or microfinance institution that wanted to intervene in the community.

Lucky for me, the farmers and traders did not mind answering a few questions and I was spared from having wasted everyone's time. Entering rural village communities had seemed at first to be a bizarre and burdensome process, one that required a seemingly archaic string of introductions. But I quickly learned to respect their routines, knowing that there must be a reason for their social codes. More importantly, I came to appreciate and desire the community contract so clearly played out on a daily basis in each of the village member's lives. My research would lead me to understand that the process I witnessed is indeed the essence of grass-roots democracy – and that the chief that seemed so foreign on the face was in reality an embodiment of the virtues so emphasized in my own upbringing in the United States.

Hopefully my conclusions and recommendations can be used to increase financial inclusion in the region, and ultimately improve the lives of the indigenous people who graciously volunteered their time to participate in my interviews. On a personal level, it has cemented my dream of pursuing a career in international development after Oxy.

Abstract

Misunderstood customary political and social institutions can jeopardize attempts at introducing microfinance into rural villages. This paper examines how microfinance institutions approach the chieftaincy system in Ghana. Using insights from over 200 interviews across 8 communities and 10 microfinance institutions in the Northern Region, observations are made regarding the equity and efficiency of the private and public sector processes aimed to increase financial inclusion. The investigation's findings suggest a number of recommendations for all key actors regarding the effective delivery of microfinance services. First, microfinance institutions must make a better effort of engaging the District Assembly to give credit to the local government structure and take advantage of its valuable platform, more clearly communicate their community selection criteria to prospective clients, and be wary of the cultural consequences of singling out women. In turn, traditional chiefs and elected Assemblymen, the official linkage between chieftaincy and the central government, need to practice due diligence with outside visitors, encourage internally led development projects to enhance community capacity and mobilize local residents and resources to demonstrate a self-help mentality. Finally, community members must also take responsibility as clients and the ultimate beneficiaries of microfinance delivery to keep their local leaders honest and proactive as well as being willing to contribute to community projects.

Keywords:

Ghana, chieftaincy, development, financial inclusion, financial intermediation

1 Introduction

Chieftaincy as a political and cultural institution has existed in Ghana for as long as anyone can remember. Having survived colonialism and earned direct inclusion in the current democratic constitution, chieftaincy continues to impact every facet of life for Ghanaians living in rural communities. A chief's role encompasses many responsibilities, including development.

Development, though a broad term, involves enhancing the capacity of individuals and ultimately increasing their standards of living. The ability of every individual to use and benefit from affordable financial products and processes is crucial to the concept of financial inclusion, an important objective taken up by the United Nations in recent years (UNCDF, 2011). Microfinance has been a growing force in the movement to enable individuals throughout the developing world to lift themselves out of poverty. While traditional banks can offer products such as credit, savings, and insurance with the presence of established credit rating agencies and conventional forms of collateral, such amenities are unavailable in many parts of the world.

Microfinance institutions seek to overcome these obstacles with extensive, rural lending networks that use alternative methods such as group lending that rely on peer pressure to ensure repayment. For the most part, microfinance has been a huge success, but inevitably it has been slower to catch on in some places. Microfinance penetration rates, which indicate the percentage of the poor population successfully accessing microfinance services, provide concrete evidence of this inconsistent performance. While microfinance has flourished in regions such as Southeast Asia and Latin America, where rates have approached 11 and 7 percent respectively, the industry is still very much emerging in Sub-Saharan Africa, which can claim only a three percent success rate (MixMarket, 2011).

Microfinance services are oftentimes a community's first experience with formal finance. Misunderstood customary, political and social institutions can jeopardize these attempts at

financial intermediation. The need to examine the economic impact from the cultural traits of a community is crucial in better understanding potential inefficiencies in implementation. Surely the process of effectively operating microfinance activities in a village in India will differ from the proper methods required for a village in Ghana. Yet local governance structures and other cultural considerations are often overlooked in the design of microfinance operations, unfortunately to the disservice of the both the benefactor and beneficiary.

Research on the separate topics of microfinance and chieftaincy are plentiful, yet more specific investigations into their intimate connection are less common. One comprehensive approach led by the World Bank Institute, the Capacity Enhancement Needs Assessment, examined community capacity through participatory assessment methods to make recommendations on how to improve the delivery of education, health, water and sanitation services to local communities in Ghana (Darlan and Anani, 2006). My report, while lacking a participatory element, seeks to make similar recommendations for the delivery of microfinance services.

One bright spot in the microfinance industry is the growing movement to emphasize social performance, which includes the “quality and appropriateness” of services and the ability to “build clients’ sense of empowerment,” in measuring a microfinance institution’s success, rather than just profit considerations (SPTF, 2011). To better understand how chieftaincy impacts financial inclusion, and thereby allow microfinance institutions to improve their social performance, this project sought to examine local perceptions of key actors in both the chieftaincy institution and the microfinance industry. Each perspective proved to offer an important piece of the puzzle.

Increased awareness of these cultural components, reflected in updated public policy, can improve both equity and efficiency, contrary to the traditional economic tradeoff that one must come at the expense of the other:

The rationale for policy is to have more comprehensive risk intermediation provided at lower cost to more of the poor. Public policy has both efficiency and redistributive rationales. In the longer run, a better supply of financial intermediation services will enable the poor to protect the value of consumption streams and to allocate their talents and resources to more productive, but risky or long term, activities.

(Conning and Kevane, 2002)

Microfinance-specific research points to an increase in outreach resulting in a loss of operational efficiency (Wholey, 2002). Yet, recognizing the needs from both ends of the microfinance spectrum will enable microfinance organizations to reach more clients at lower costs, while informing chiefs how to make their communities more accessible and marketable to microfinance organizations.

This research is not intended to explicitly advocate for a particular group of indigenous people, nor is it to defend the current practices of microfinance agents. Interview details are included merely as a way to examine personal and professional reflections and to give examples of specific cultural insights. The quotations are not used for the purpose of giving individuals a platform to simply list their grievances. Rather, the aim is to produce an in-depth case analysis from an outsider's perspective for consideration in shaping pro-poor policies for the benefit of all parties involved.

This project was designed as an exploratory study. While the main focus is clear, the report will touch on a variety of additional topics that were encountered and contribute to the overall process under review. These sub-topics can all be interpreted as suggestions for further study. The rest of this paper is divided into five sections: Section 2 describes the methodologies used and their limitations. Section 3 includes reflections from community members, including farmers and traders. Section 4 provides the chiefs' perspectives and explains their link to the central government. Section 5 outlines the approach used by microfinance institutions in working with rural communities. Finally, Section 6 uses the insights from the previous three sections as a basis

to make conclusions and recommendations about how the microfinance industry and chieftaincy system can better work together to increase financial inclusion.

2 Methodology and Limitations

Chieftaincy in Ghana is far from confined to local governance. Fully defined, the institution encompasses a broad bureaucracy with various linkages to the formal government of Ghana, as codified in the most recent 1992 Constitution. However, chieftaincy manifests itself most directly in the form of local leadership in rural village communities. So, for the purposes of this study, I have concentrated on the local-level and mid-level linkages, and therefore have left other influences constant in my analysis. Though chieftaincy at the national level, namely the National House of Chiefs, may influence important policymaking, the village-level components of chieftaincy have the most impact on the direct implementation of microfinance services. To that same end, the microfinance industry is also diverse, with an assortment of different-sized institutions offering a wide range of financial products and led by a blend of non-profit and profit-seeking missions¹.

Site

The location of this study was chosen for a number of reasons. The Northern Region is one of ten regions in Ghana. Its capital, Tamale, played host as the base camp for village visits. Reputed as being one of the fastest growing cities in West Africa, Tamale is also referred to as the “NGO Capital” of the country for its myriad non-profits that either are headquartered there or have set up a local branch. This is primarily due to the relatively easy access to rural village communities surrounding the city, with literally hundreds of villages within an hour’s drive. Speaking to the region’s entrepreneurial spirit, a majority of the working population was self-employed, evident by the overwhelming presence of family-run micro and small businesses. For these reasons and others, many microfinance institutions find Tamale as a suitable start-up base or

target for expansion. Similarly, Tamale was determined to be an appropriate location to launch this case study.

Despite these benefits, limiting the research to a single region certainly has its drawbacks. For one, the cultural impact of chieftaincy differs across the ten regions of Ghana, where it is more deeply rooted in some communities than in others. This is not surprising as Ghana is home to over 100 ethnic groups and 79 known languages (Ghana Embassy, 2011). Nevertheless, the modern political system views every local chieftaincy through the same legal lens, and over time various tribes have conformed to standards stipulated by the National House of Chiefs (Abotchie et al, 2006).

Interviews

This report is a result of over 200 face-to-face interviewsⁱⁱ. To obtain community reflections, eight rural villages, with populations ranging from 200-600 residents by internal estimates, were selected with the help of two local guides, who also served as translatorsⁱⁱⁱ. While ideally villages would have been chosen at random, the process of formal recording and sampling the thousands of villages throughout the Northern Region would have taken too much time and resources. Also, field researchers have noted that “any group which fears officialdom can best be researched by working through friendship networks and trusted organizations, a process which cannot yield a strictly representative sample” (Laws et al, 2003, p.82). Instead, the guides identified five villages outside of Tamale and three villages near Yendi, the second largest city in the region^{iv}. Throughout this paper, these locations will be referred to using the phrases such as ‘villages’ or ‘rural communities’.

Upon entering a village, we were led to the chief’s palace. When we were able to meet and speak with the chief, an occurrence which did not always happen on the first attempt, we explained the purpose of our research and how we would conduct interviews. Not a single chief turned us

away, and many were very welcoming. After interviewing the chief himself, we would proceed to walk around the community, selecting at random ten women and nine other men, as the chief was counted in our quota of twenty residents. For the most part, men were farmers and women were traders by profession^v.

Interviews were structured using an interview question guide, with slightly varied questions pertaining to the profession of the informant. Verbal responses were recorded by on-site note-taking to the researcher's best ability. Informants' direct insights throughout this paper represent rough translations^{vi}. Interviews took up to twenty minutes per informant, with as many as ten interviews occurring in a single day's visit^{vii}.

While we preferred informants who were thoroughly familiar with the subjects for which they were being interviewed, we did not screen informants and were pleased with our decision. As will be noted later in comments about District Assemblymen, relatively inexperienced politicians were able to give unique insights as new entrants in the local political arena. In this way, we found that having informants represent a range of experience resulted in a more well-rounded and comprehensive picture.

Interviews with microfinance practitioners simply required showing up at their office. A primary list of microfinance institutions operating in Tamale was obtained through the Microfinance Exchange website (MixMarket, 2011), with several being successfully contacted through e-mail communication prior to arrival. Additional organizations were encountered during inter-city travel. Every organization we approached was willing to participate in the study. Meanwhile, local politicians were identified by asking rural residents the whereabouts of their elected District Assemblyman. Every Assemblyman we interviewed spoke English.

Relying on individual reflections also presents a dilemma. Surely, the incentive existed for community-based informants to provide answers that might lead to their benefit. For example, a

farmer might indicate that no microfinance institution had ever entered his village despite the community's suitability, hoping that in turn the researcher would solicit such services. Therefore, it is important to be wary of exaggeration. Also, in such a close-knit village setting, a community member may also answer in a certain way as to save face or avoid retaliation from other community members or leaders (Platteau, 2000, pp.12-4). To minimize such risks, interviews were conducted in private settings when possible^{viii}. Similarly, a microfinance agent might give idealistic answers, rather than a realistic description of the organization's practices^{ix}. For the purposes of this study, however, we must assume that informants gave candid answers.

Given the overall limited nature of this study, it is difficult to argue that the findings are of scientific status. The lack of statistically-significant results and the non-random sample fail to establish proper validity. Yet, because the research methodologies are clearly outlined and transparent, with the interview questions included in the Appendix, future replication could lead to the eventual corroboration of the findings (King et al, 1996). The conclusions and recommendations are based solely on the evidence gathered in the field, a research standard appropriate to reporting non-random-based evidence (Laws et al, 2003, pp.73-85). It should also be noted that informants were often asked to give their opinions, which are subject to change, especially given the evolving case subject. Therefore, subsequent findings may differ as local sentiment changes. The acknowledgement of the limitations and weaknesses of the study displays the research in a realistic frame.

3 Findings: Reflections from the Communities

Community residents are the ultimate benefactors from microfinance services. Their voices must be heard in order to clearly understand their needs and aspirations. Many development practitioners agree that it is ill-advised to force upon a community modernized processes that radically depart from their cultural lifestyles and beliefs (Sohng, 1995). Yet, to a certain extent,

these residents must be willing to adapt to new methods in hopes of increasing their economic capacity and ultimately their standards of living. The following observations aim to create a picture of how the customers in this microfinance equation view the world and conduct their day-to-day lives.

Grass-Roots Democracy

For residents of the eight rural villages observed, chiefs may not necessarily play a direct, tangible part in their daily work routine. As farmers and traders by profession, the working patterns of rural residents vary widely according to factors such as the weather, market schedule, and particular growing season. However, when it comes to community activities, the chief plays a central role. While many sources list both the historical and modern responsibilities of local chiefs, the informants were given an opportunity to share their thoughts on how they believed their chief's role has evolved with increased development. In other words, what did rural residents notice their leader doing more of during recent years? Their responses were fairly consistent with descriptions found in chieftaincy literature, and in general the leader was seen in a positive light across the eight villages.

Figure 1. Villagers' Perception of Chief's Evolving Role with Increased Development

Increased Role	# of times mentioned out of 160 informants
Coordinates community gatherings	65
Solicits development projects	62
Liaison with outsiders/visitors	55
Arbitrator (conflict resolution, peacekeeper)	47
Religious/Spiritual Leader	40
Mobilizes people for community labor	31
Bring "good luck"	23
Responsible for new community facilities (schools, etc.)	20
Distributes community land	14
Provides assistance to struggling families	8
No change	7

Figure 1 displays the roles that residents noticed increasing. While coordinating community gatherings has always been a duty, as more outsiders approach the community, the chief inevitable must call more gatherings to give outsiders the chance to present their purpose. The second two most popular answers also involved dealing with outsiders. Overall, people seem to expect their chief to perform a wide-range of roles, many of which heavily influence the economic sustainability of the community.

In addition to the data compiled in Figure 1, more specific examples shed light on how village residents view their local leader and his contributions to their society. One woman explained that their “Chief takes good care of them because he doesn’t make decisions on his own,” referring to the Council of Elders and community consensus procedures. Further, if community contributions fall short for a development project, the chief will cover the remaining costs. One chief even assembled his community to establish a children’s education fund.

On occasion, a chief can also use personal connections to the benefit of his people, with one woman revealing that the “Chief’s relationship with other communities helps them get access to grinding mills.” The chief can also provide motivation for farmers in his community in order to boost agricultural output, which according to one farmer also helps maintain peace: His chief will question farmers if they’re not working out in the farm when everyone else is, because the “devil finds work for idle hands.”

One particular chief showed initiative by monitoring teacher attendance at his community’s school on a regular basis. Because the teachers feared that the chief would report their absences to their superiors, teacher attendance was above average and class start times were punctual. This is in contrast with the typical atmosphere of rural schools, where teacher attendance and enthusiasm is spotty at best. In addition, residents described a time when the chief successfully solicited a salary from the District Assembly for a volunteer teacher who had been working very hard.

Another chief apparently was successful in soliciting a non-profit organization to assist with resolving a guinea worm epidemic and construct a water borehole. Whether this was a direct result from chief's actions or whether the community was the fortunate recipient of a District Assembly initiative, or both, is hard to say.

Praise was adjoined by frustration. "He shouldn't just sit there in his room and give orders," one farmer said. Another complained that the chief "has been giving farm land to outside investors." In some communities, interviews revealed that with increased development projects, chiefs had personally benefited because visitors typically bring small gifts as goodwill builders, though this can be argued as fair compensation for the effort exerted as an official host. Meanwhile, some women mentioned that their chief had requested that they process his rice for him for free. Despite some of these leadership perks, one man gave a word of warning and a stark reminder of a village's democratic reality: "If the chief doesn't bring good luck, we hope he leaves."

The Traders' Perspective

Contrasting the details of many village residents regarding their chief, one trader was disconnected to his local leader completely, indicating that he had no idea about his chief's changing role. Rather, "his (family's) only concern is about getting up every morning to trade and get money to feed their children." In fact, this was a common theme among traders who traveled between multiple communities. Figure 2 shows that a majority of traders never come into contact with the chiefs of other communities. A few traders explained that they sought approval to set up trading posts in certain villages during their designated market days to ensure that they would have a secure location. Others mentioned occasionally greeting chief of villages in which they worked simply as a custom. Most, however, did not bother to meet chiefs and simply entered villages in which they know other people or had family connections. Some women even mentioned having

never even met the chiefs of two communities with which they had been trading for over 30 years. This gives an idea of the limited role the chief plays in inter-community trade.

Figure 2. Traders' Interaction with Chiefs

None	72%
Customary/Occasional	28%

Figure 3. How Traders Select the Communities in which they do business

Criteria	# of times mentioned out of 80 informants
Proximity	36
Availability of Resources/Market	31
Family/Friend Connections	20
Profit Considerations (Margin)	13

The profession of trading arises from naturally-occurring arbitrage opportunities. In these communities, most traders add value to their goods through a combination of processing and bringing the final good to direct buyers. When asked where they traded and why, most indicated that they simply moved between the several communities within close proximity. Some also gave more specific reasons such as family connections and availability of a market. Naturally, communities that host well-attended “market days” will attract more economic activity. Others also mentioned that they took into consideration the market prices, avoiding certain communities where margins were too low to make a decent profit.

Figure 4. Single Biggest Obstacle for Traders

Biggest Individual Obstacle	# of times mentioned out of 80 informants
Limited Working Capital	33
Transportation	19
Lack of Local Resources	10
Price Volatility	6
Time Constraint	7
Repayment	3
Family Issues/Health	2

Other factors influence traders' everyday decision as well. Figure 4 lists the most common obstacles mentioned by traders during interviews. Infrastructure enhancements could improve transportation problems while price flux can be combated by financial products such as futures and

options. Yet the primary constraint of limited working capital could most easily be addressed through microfinance lending. The lack of local resources is discussed below.

Community Resources

In rural villages, chiefs technically control all community resources, but for the most part they are available to anyone who wants them. This includes land, water, firewood, and some indigenous plants. This creates an opportunity for entrepreneurs, who can take advantage of free resources to jumpstart a livelihood. Many women mentioned having collected free firewood to sell or picked Shea nuts to process. Farmers also will let community members scavenge for left-over crop scrapes on their fields. After earning some start-up capital to work with, women can then invest in other, more profitable goods to process and trade.

The obstacle of limited local resources was illustrated by a number of women traders who mentioned that their community lacked an abundance of firewood. As a result, they resorted to collecting it in and around other villages, where they would get yelled at by local leaders and residents. Another woman trader complained that a lot of her time was wasted traveling to a nearby village’s busy mill because of her own community’s lack of one.

Aspirations

Figure 5. Desire to Increase Individual Capacity

	Yes	No	Not sure
Traders	94	4	2
Farmers	83	14	3

Outsiders often assume that all residents of poor, rural communities aspire to earn more money. People with more material wealth believe that others with less constantly struggle to catch up. My interviews suggest that this is not an accurate characterization of the village residents in this study. In fact, some rural peasants are happy as can be and have no intention of “moving up the ladder.” When asked about their desire to increase their individual economic capacity, there

was not a resounding “yes”. As Figure 5 shows, 14 percent of the farmers interviewed expressed satisfaction with their current level of income. Meanwhile, traders were more eager.

This differentiation could be attributed to the fact that traders can more easily exchange goods at profit, while farmers are limited to what they can physically cultivate. In other words, traders are limited by working capital, while farmers tend to be more limited by physical constraints. The reality is that some individuals are more productive when farming than others. One individual summed up this point well, when he told me that he would lend to a fellow farmer who was struggling because “not all hands are created equal.” The subsequent income inequality within communities is addressed by a number of mechanisms, as described below.

Informal Lending

Interviews revealed a relatively high level of trust within communities. However, when dealing with people from other communities or at a market, trust was not as strong. These observations were construed from answers about individuals’ willingness to lend to their neighbors. Most said they would support a friend or family member in need, or sell an item to someone they know on short-term credit with no interest. Yet, most informants commented that they wouldn’t do the same for a stranger. Many mentioned specific reasons for why they wouldn’t offer or be offered informal credit to and from clients, including past repayment problems, lack of funds to lend, or a simple risk aversion mentality. Meanwhile, others would only lend to regular business partners who bought or sold in bulk quantities. One farmer made it a point that he would only charge interest when lending to a friend if he had obtained those funds through a microfinance loan, and would therefore need to recoup those costs of borrowing himself.

Formal Lending

Figure 6. Traders’ Interest in Microfinance Loans

Perception of MFI services	# out of 80 total
Would take loan if available at reasonable rates	59
Process is too complicated/time commitment isn’t worth it	9

Doesn't feel the need to borrow	7
Bad experience in the past	4

Figure 7. Farmers' Interest in Microfinance Loans

Perception of MFI services	# out of 80 total
Would take loan if available at reasonable rates	30
Doesn't feel the need to borrow	13
Doesn't want to go into debt	12
Doesn't think he would be eligible as a male farmer	11
Can't/Doesn't want to join group	8
Bad experience in past	6

While informal finance naturally occurs in rural communities, formal financial products aren't always as readily available. As microfinance organizations increase their presence in this particular region, there have been mixed feelings from village dwellers based on both direct experience and stories they hear from others. Word of development projects and opportunities often travel fast through word of mouth at market days, when women will intermingle with other traders from nearby villages and bring back news and rumors to their own communities. If a microfinance organization begins offering services in one community, surely the surrounding communities will know about it soon thereafter. Yet, as with all rumors, the validity of information can be skewed by personal opinion and interpretation and therefore microfinance organizations can find themselves at the mercy of client sentiment. For example, if a community has a bad experience with a particular microfinance organization, then there is a definite possibility that the entire area will become hesitant to participate in future offers.

In this way, the responses observed in Figures 6 and 7 demonstrate how direct and indirect impressions impact individuals' interest in obtaining microfinance loans. For the most part, traders were very interested in applying for loans if available at reasonable rates. Yet some were turned off by what they viewed as a convoluted process, perhaps preferring a simpler, local solution. There was also a clear distinction between farmers and traders. As discussed earlier, the two professions demand different inputs and timeframes and therefore result in varying risk profiles. Also, interest

levels resemble the difference in desire to increase economic capacity. The farmers' responses also introduce the issue of males feeling disenfranchised in microfinance process.

Figure 8. Interest in Town Banks – “Have you ever gone to town for banking services?”

Response (Generalization)	% out of 180 responses
Yes, and I was successful	7
Yes, and I was not successful	12
No, I believe I wouldn't qualify	38
No, I have no money to save	32
No, I'm afraid to go into debt/distrust banks	6
No, never thought about it	5

Residents' expressed interest in town banking also reveals that many rural residents are discouraged from attempting to open bank accounts from what they hear from fellow villagers or at community markets. The sense of overall disenfranchisement represents the frustration that rural residents feel about formal banking. Failed attempts and related stories lead to a general disconnect and distrust in the banking system. In Tamale and other Ghanaian urban centers, banks are usually the most prominent buildings and exude a sense of power that tends to intimidate. Such institutions can seem a world away to peasant farmers, who may feel that they are not welcome, despite possibly being eligible for an account.

Others, however, are in fact ineligible for formal accounts, as they lack substantial savings. “A poor man doesn't borrow; if he does, what will he use to repay,” asked one man during an interview. Yet this ineligibility is partly due to their inherent financial strategy, which was adopted in the absence of formal banking to begin with. When most sustenance farmers harvest their crops, they keep the supply in storage and slowly sell it as prices increase or they have an urgent need for cash. In fact, villages are fairly cashless, with most value tied up in crop supplies and livestock. As one farmer astutely put it, “their food is their money.” Some community members will have an abundant harvest supply that might easily be converted to a substantial savings account, while

other, less fortunate farmers, pleaded, “If you don’t have enough to feed, how do you save?”

Another stated, “If he has any money at all, it’s in his pocket.”

Young individuals that have yet to go to a formal bank, have devised their own savings systems as well, with one young farmer claiming that he keeps all his cash with his mother so he won’t be tempted to spend it. Another farmer says that he has learned from past mistakes, and now invests any extra cash in additional food supplies so he won’t end up spending it on worthless items instead.

These reflections begin to show how the overall lifestyle under the chieftaincy system impacts residents. It is clear that not all community members see the immediate potential benefits from increased financial inclusion, for a number of reasons. Yet these are the clients microfinance institutions hope to reach.

4 Findings: Chieftaincy in the Constitution

Outsiders unfamiliar with the chieftaincy system might be intimidated when told that they must meet with the chief before working in a community. For practitioners of microfinance specifically, concern might arise more over traditional customs that could interfere with routine microfinance transactions. Yet this general fear can be overcome if recent history and cultural trends are better understood. In fact, both the government and the chiefs have already realized the importance of addressing obnoxious customs that might result in economic inefficiencies. Since its creation, the task of the Research Committee of the National House of Chiefs has been to evaluate traditional customs with regards to their impact on development progress, according to chiefs interviewed that had first-hand experience with the process. On top of this successful and transformative policy, the research observations below provide reason to believe that chiefs and their communities would be willing to adapt to a non-profit or microfinance institution’s

suggestions or demands if they believe a particular practice was seriously hindering progress, within reason of course.

The Chief

For each of the eight chiefs interviewed, the perception of role he plays in the development process was very similar. Each mentioned that they must actively solicit development projects, according to the village consensus of community needs. They are also responsible for the upkeep of existing projects and facilities, the mobilization of residents for internal development efforts, and the perpetuation of peace through sustainable development decisions. Specific examples mentioned by chiefs, and mostly corroborated by residents' similar descriptions, include the opening of a joint savings account for the entire community, the creation of sub-committees for various community issues, the collection of community contributions towards investments such as a shared tractor and the selection of responsible community leaders for savings groups.

Invariably the chief must host outside organizations hoping to intervene in a community's development plan. Development economists have previously analyzed such entrance mechanisms:

If the decision about whether to allow or enable an intermediary to enter the village in the first place is a political decision taken locally, the political process may stymie the efforts of the intermediary to enter. This may happen despite the intermediary's potential to improve financial services for most in the village. If the service disturbs the relative balance of power within a village, it may be blocked.

(Conning and Kevane)

Yet, as mentioned in Section 3, chiefs want to be seen as "lucky" by their people. So, if other chiefs in the area are embracing microfinance institutions, even if they lose some relative power, the chief has an incentive to accept a microfinance intervention in fear of losing ground compared to other nearby villages, therefore being seen by his people as ineffective.

When an organization, be it a microfinance institution or other NGO, approaches a community, it may be their own initiative or by the beckoning of a community member.

Representatives from the organization will first meet with the chief and his council of elders, who,

upon understanding the organization's mission, will gather the community for them to listen to a presentation of the proposed intervention. The resulting community questions and discussions will lead to the next steps of a potential development project. While community consensus must be reached before an NGO can begin working, the decision is usually heavily influenced and shaped by the opinion leaders of the village, which undoubtedly includes the chief and the council of elders.

In general, chiefs insisted that they were very open and welcoming to visitors, especially if the visitors were proposing an aid project. And why wouldn't they, many chiefs explained. "How can you turn someone away that is there to offer help?" one chief asked. Another remarked, "Who doesn't want assistance?" Instead, the chiefs point to the visitors as being the ones that need to improve their relations and keep up their ends of the bargain. The chiefs explained how many NGOs arrive to conduct research and feasibility studies, but only a fraction end up actually returning to offer their services.

As long as an organization was proposing a project that contributed to positive development, they would be given a chance to explain themselves fully. Only a few chiefs expressed that they would be hesitant to allow taboo cultures, specifically mentioning homosexuality, to work in their community. One chief explained that they let NGOs explain their plan and have a trial run before determining whether the relationship would be beneficial to their community. They gave one example of a time when a microfinance institution dispersed loans, but required partial repayments beginning just two weeks later. Because this requirement wasn't congruent with the community's economic activities and unfairly benefited a small portion of traders, the chief asked the institution to leave. Another chief mentioned that an NGO offered agricultural assistance with the condition that the NGO be the sole buyer. This wasn't a practice that worked with the farmers' selling habits and culture, so the relationship ended.

Past experiences can also cause community leaders to become wary of outsiders. There was even one mention of a scam, where a visitor posing as an agent of a highly successful and well-known businessman in Ghana came to the community. The imposter offered an extremely high savings rate, prompting one farmer to sell most of his possessions to take advantage of the rates. However, after handing over the funds, he never saw this man or his money again.

The common theme here is that communities will only be as enthusiastic as the outsiders. If visitors don't return quickly or don't live up to their promises, communities will be wary of supporting them fully and outsiders will find it harder to set up future group meetings. One woman insisted, "I've never seen us turn any NGO away; rather, they just never return."

District Assemblies

As times change, traditional authorities must interact with modernized political processes. In 1994, the Government of Ghana initiated a shift towards a more de-centralized structure, creating Regional Coordinating Council and District Assemblies. While no one rejected chieftaincy as a permanent fixture in Ghanaian society, policymakers believed it was necessary to create a formal linkage between traditional local leaders and elected regional politicians. From the outset, chiefs were forbidden to meddle in party politics, a trait some scholars have attributed to Ghana's democratic success and reduced tribal conflicts (Gyapong, 2006). Since chiefs would not be caught up in political bickering, they could continue to concentrate on their primary responsibilities within their village without worrying about the ebbs and flows of political popularity.

It is essential for a community and its chief to communicate its needs to its elected Assemblyman, whose job as an elected official is to represent a number of communities within an electoral sub-district. At District Assembly meetings, the Assemblyman, along with any members of the community who are free to attend, will hear updates from the District Chief Executive and

plea for funds. Assemblymen may also write letters to their District Office asking for specific funding. While certainly not an original component of the chieftaincy institution, this linkage plays a crucial role in joining the chieftaincy institution with the modern democratic government.

In interviews, local Assemblymen explained their responsibilities to the rural villages they represent. These included attending District Assembly meetings, soliciting development projects by writing letters to organizations and lobbying the District Chief Executive, and interacting with communities in their electoral area to determine their most pressing needs. One can clearly see that an Assemblyman's perceived duties are very similar to that of a chief, with overlapping responsibilities to decipher the most pressing community needs and solicit development funds. While these responsibilities overlap and thus should theoretically be addressed more effectively, it is just as easy to imagine both leaders asserting less effort, assuming the other one will take the reins. Even worse, when results are not satisfactory for community residents, both leaders will be blamed and point fingers at each other.

Naturally, tensions arise as various forms of power shift. In their participatory assessment, Darlan and Anani (2006) observed a growing confusion over the newly delegated roles and responsibilities of the two. They also noted that they "have yet to develop the skills and experience to play the role that the government has scripted for them" and "community representatives feel uncomfortable" in meetings where they should feel confident to voice the needs of their constituents. Their assessment also observed that "policy makers and implementers require orientation seminars on a regular basis to help them become more proactive" The authors recommended that "in addition, beneficiary representatives should join policy makers and implementers in training programs so that all can discuss their activities and problems and exchange experience regularly" however, while this might be helpful in theory, reality results in shouting matches over political affiliations, limited funds, and allegations of corruption and

laziness, according to the District Assemblymen and chiefs that I spoke with who had attended such meetings.

Reflections from Assemblymen varied, usually depending on the length of time they had been in their position. Some Assemblymen had only recently been elected to their position. These informants could share a great deal of information about how they were elected and the reasons why they believed their communities selected them. They also mentioned their ambitious goals and plans for action. However, they were less adept at providing insights into the culture of actual District Assembly meetings. Other Assemblymen that had been in their position for a number of years could share more stories about their successes and failures in soliciting development aid for those they represent. These, more experienced Assemblymen tended to be more cynical about the development process, seemingly more frustrated at its slow pace and inefficient distribution methods.

Assemblymen serve four-year terms and face no term limits. One Assemblyman, however, who stepped down voluntarily after serving in his civil servant capacity for eight years, personally believes there should be term limits. He explains that “not just one person has sense in a community; others must experience this role and others might have better ideas.” Plus, the community puts a lot of pressure on its elected Assemblyman to deliver on their development requests. Since the creation of the position, community residents rightfully see Assemblymen as their link to government, and expect support. Despite stepping down from his formal role, this one man still serves as a mentor to the new Assemblyman and continues to be on the lookout for outside organizations that he might be able to convince to start a project in one of the communities in his electoral area.

Assemblymen explained their evolving relationships with chiefs in more detail during interviews. Assemblymen pointed that while chiefs could use their Council of Advisors for support

and still retained traditional authority over community lands, they themselves only received a small allowance from the District Assembly that barely covered the cost of traveling to attend meetings. During elections, some Assemblymen distance themselves from chiefs to avoid “being seen as the chief’s pawn” while others use the support of chiefs as a proclaimed advantage. Whether or not an Assemblyman decides to align himself with the local chiefs, they insist that to be effective they must understand the chief’s evolving role and avoid overstepping the chief’s sense of authority. To do otherwise would be to stir up trouble for no good purpose, according to several Assemblymen. Some mentioned that they had to counsel their chiefs not sell any of their community lands to outsiders, but rather lease on a short-term basis if necessary.

Assemblymen described the process of soliciting development projects as very onerous and self-led. They complained that because most aid organizations, specifically microfinance institutions, did not make presentations at District Assembly meetings, individuals were left to independently seek out organizations. While they admitted that their meetings were somewhat inefficient because of political considerations and bickering over limited resources, Assemblymen wish microfinance agents would be more forthright regarding their selection process. Instead, Assemblymen are left to approach any microfinance office they come across or see operating in a nearby district to see if anyone from his community might be eligible for their services. During this process, they are typical given a variety of reasons why his constituents don’t qualify or realize that the financial products offered wouldn’t be suitable for the farmers in his area. Some Assemblymen even took on extra responsibilities, advocating for areas where they claim other Assemblymen don’t take their position seriously.

Even when Assemblymen are successful in attracting an organization to target one of their communities, they often still face difficulty figuring out the details and conditions of the project agreement between the outside organization’s leaders and the community as a whole. The

Assemblyman must convince his community to commit resources, such as land and labor, to a project, as aid organizations have begun to demand more and more from communities as this can be attributed as important to the long-term sustainability of a development project. Yet some Assemblymen face roadblocks, as communities are hesitant to make such commitments when in the past aid was usually dispersed with no strings attached. Unfortunately, Assemblymen mentioned several cases where promising projects were turned away because the community concluded that the organization was demanding too much from them in return for assistance.

Despite these challenges, a few Assemblymen stressed that putting pressure on District Assembly sub-committees and lobbying the District Chief Executive effectively could lead to government funding for certain types of projects. Such funding, in turn, would lead to more funding in the future if the project was deemed a success. One assertive Assemblyman demonstrated that success can be built upon compromise. In an effort to receive assistance in the form of free cement to build a new school, one Assemblyman brought together three chiefs in his electoral area to agree that a new school would be shared by the children of the three communities. On top of that, the Assemblyman secured letters of support from the Ghana Education Service and the District Assembly to vouch the credibility of a written “community action plan”, complete with pictures of the half-built school and thumb prints of the three chiefs. Yet the Assemblyman insists that it was his follow-up and constant reminders to the pertinent practitioners that sealed the deal. Other, less successful Assemblymen meanwhile were more likely to complain that the District Chief Executive wasn’t doing a good job, rather than admit that they could spend more energy seeking out projects independently.

5 Findings: Microfinance Perspective

While every microfinance organization has a slightly different mission, several themes emerged during discussions with microfinance managers and field agents regarding the criteria

used in targeting specific communities. Before offering their services to residents, an organization will conduct a visibility study of a number of villages within a certain district that has been earmarked for increased microfinance. The results of their studies will determine which individual communities are most suitable for intervention and have the greatest chance of becoming sustainable and responsible clients. Studies are conducted through observations, group discussions, and individual interviews with community residents.

Criteria for Community Selection

Past History of Intervention

One of the first things an assessment will examine is the recent history of other aid organizations that have worked with a community. It is generally a bad sign if past organizations left, as there is a possibility that the community was not supportive enough. Yet, this will be an unfair judgment if the organization left simply because its own leaders weren't effective. While examiners will attempt to identify this distinction in one-on-one interviews, it is always hard to decipher the full reasons why past organizations departed. Any physical facilities built by outside organizations will also be closely looked at to see if they have been well taken care of, a signal of the community's responsibility.

Officers will definitely note if other microfinance organizations have already operated there in the past. They will look to see what their recovery rates were, and why the organization decided to leave. If there is a microfinance operation still in progress, most microfinance organizations will pass on the community to begin with^x.

To that end, many microfinance agents explained that communities with the most experience with outside organizations have learned "the tricks of the aid trade," as one put it. That is, residents understand that microfinance organizations can do little to recoup losses when clients default, and other organizations will most likely continue to enter their community. Therefore,

some organizations fear that a community will take advantage of them. For this reason, some organizations prefer communities that have little or no experience with aid organizations. Also, avoiding communities that already have several aid organization operating there will prevent overlap.

Community Leadership Traits

The assessment will also look for proactive community leadership. Communities that demonstrate an evident “self-help” mentality are preferred. Agents will ask a community’s chief and assemblyman if they have a clear community action plan, and how they are working towards their goals. Have they expressed a specific interest in microfinance? It looks good if community leaders were the ones that reached out to the microfinance organization in the first place. In fact, every microfinance organization mentioned that chiefs and assemblymen had approached them at their offices to solicit their services.

Individual interviews with community residents tend to also reveal the level of community cohesion, which agents find crucial to a sustainable operation as consistent participation and enthusiasm is important. One microfinance organization had already written a check for a group, but when the field agent went to deliver it, they hadn’t even opened the account yet to receive the check; because of this, the microfinance organization sensed that this community wasn’t taking the process seriously enough, so they ceased operations there. Microfinance organizations are also hesitant to continue working with an interested community if the group turnout is particularly and consistently low.

The microfinance organizations involved in this study generally saw community leaders as beneficial allies. This is not surprising, as they often serve as free consultants and organizers for them. “As long as its clear that you are not there to take away their authority, they are very welcome,” explained one agent. Once an organization indicates that they intend to begin working

with a community, its agents expect local leaders to assist them with repayment issues and default consultations. Only under this assumption do organizations feel assured that they have a chance of succeeding. This role has also been observed as crucial to the success of microfinance organizations in Indonesia, where researchers noted that village chiefs had been acting as an “indigenous credit rating agency” (Chavez and Gonzalez-Vega, 1993).

However, some Ghanaian microfinance practitioners that have been working with village communities for decades noted that chiefs have “gradually been losing their clout,” as additional community leaders crowd their territory. Some even insisted that the chiefs were no longer useful with helping recover repayments, when they had previously been considered “pivotal”. “Gone are the days when the chief said something, it was essentially an edict,” explained a managing director at a for-profit microfinance organization based in Tamale.

Still, most managers mentioned that chiefs and Assemblymen should help microfinance institutions organize lending groups and identify responsible leaders. Though some organizations preferred if the Assemblymen was not involved with organizing lending groups, as it could add a political factor to the process, which might complicate things later. In fact, some agents preferred pre-existing groups because they are more likely to be functional and cohesive already.

Economic Capacity

The next characteristic an assessment will judge is a community’s overall economic capacity. In other words, does the community have the means to earn the required returns on their microfinance loans? In general, microfinance managers stated that communities that had a significant stake in the marketing end of the value chain spectrum are preferred because clients can be easily be monitored. Meanwhile, the production end, essentially bare-bones farming, is more expensive and time-consuming to monitor. Agents also explained that the longer repayment terms

required by farmers lead to more cases where clients end up diverting their loan funds for other costs, instead of on agreed-upon, productive means.

To overcome this constraint, a few microfinance outfits have begun to partner with non-profit organizations already offering technical assistance. Such presence gives assurance to lenders that proper procedures are being implemented to boost productivity, and thus lowering the risk of default. Many of these technical providers themselves solicit assistance from microfinance organizations to provide the necessary lending facilities for their operations.

Most microfinance agents also said that they require communities to provide at least one literate individual to serve as group leader, as past experience has taught them that illiteracy fosters confusion regarding the terms and conditions of a loan.

Role of District Assembly

While no specific, enforceable law is in place, it is expected that any organization wishing to intervene in a community seek recognition and approval from the area's respective District Assembly. The purpose of this process is to ensure that the government and local leaders are fully informed of development projects in their area. With this knowledge, the District Assembly theoretically should be able to avoid overlap and make appropriate funding decisions. If an organization wanted advice on which district would most benefit from their assistance, the District Assembly would be more than willing to point them in the direction of specific communities. However, most microfinance managers claim that they never attend such meetings nor seek approval from local government before launching village-level operations. In fact, the only microfinance organization that used the District Assembly to guide its community selection process was a government-funded microfinance program. Other managers said that the District Assembly was too politicized and unorganized, and so their own needs assessment methods were more suitable. In fact, if borrowers believe the government is funding a microfinance organization

or involved at all, they will likely see it as a handout and sometimes refuse to repay. Borrowers' rationale here is that if the government-run microfinance organization tries to give a community a hard time for not repaying, the ruling party will lose their votes in the next election. Therefore, managers mentioned that they must stress the fact that they are independent and not associated with the government to avoid this downfall.

Women's Issues

Women's rights have certainly increased as they have been empowered through financial services. Despite being the primary target of group lending, the patriarchal society can be a cultural impediment, according to some interviews at microfinance organizations. Several agents working for women-only organizations expressed that they found it difficult to explain to male "gatekeepers" of a community that they were only interested in lending to women. These agents indicated that some men were hesitant to work with such microfinance organizations, as they would be losing relative power.

6 Conclusions and Recommendations

If the objective of this report is to provide recommendations on how to improve the capacity of rural villages, it is advised to follow a clear framework:

A comprehensive approach to capacity development requires the identification of the problem that the community is facing, the functions and the collective actions that need to be performed by community members, the capacity of community groups and leaders, the capacity of other development actors involved, and the surrounding conditions.

(Darlan and Anani, 2002)

Following this framework, Section 1 introduced the slow pace of financial intermediation in Ghana. Section 3 described how potential microfinance clients, traders and farmers, interacted with their community and leaders. Section 4 showed how chiefs and local politicians act as community leaders. Section 5 gave insights on how microfinance institutions view their market. So, finally in Section 6, these observations and analysis are used to make recommendations.

Overall, the interview results reveal that the three integral actors in the delivery of microfinance services, this is the clients, local leaders and microfinance institutions, can all make improvements in their approach.

Recommendations for Communities

The basis of microfinance delivery is the rural village. Residents of these villages were quick to point at outside organizations as the ones not matching their levels of enthusiasm for their desired pace of development. Despite experiences with ineffective aid organizations and poorly run microfinance operations, community members must remain positive and welcoming to new visitors.

Individual residents must also do its best to respect the agenda of the outside organization, within reason. For example, many, if not most, microfinance institutions target strictly women for short-term loans for a variety of reasons cited across microfinance literature. When microfinance institutions enter communities with the sole of intention of assisting only women, men will undoubtedly become frustrated – especially if this experience occurs repeatedly. It is certainly difficult for male farmers that have labored in their fields all day to come home and be told that they are unfit for a loan. With their wives receiving this new, targeted assistance, husbands surely have begun to witness a change in power dynamics within individual households, as noted occasionally by women traders who now feel more independent and microfinance agents who claim they have noticed differences in behavior of women who receive loans. Because the grass-roots democracy system demands a general consensus from all residents that a proposed intervention is indeed mutually beneficial to the entire community, men may begin to voice their frustration by blocking women-only microfinance institutions hoping to enter a community. Even if a women-only operation gains community approval, without a strong endorsement and positive

approach by most individuals, including the men, microfinance activities are likely to fail because of the need for solidarity when establishing group pressure for repayment purposes.

This example is most related to the concept of inequity aversion, which attempts to explain why men in a village would rather turn away approaching microfinance institutions that are only targeting women. The rationale would be that men would prefer getting nothing to receiving a smaller share of the pie. In other words, even though men would ultimately benefit as their wives and friends' wives experienced income gains and increased capacity, they would turn away a beneficial microfinance organization because they would be relatively less off. By empowering the women of the village, microfinance agents would be taking away relative power from the men.

Yet the response to the general theory of inequity aversion proposed by Shaked (2005) seems more appropriate given the mixed responses currently observed regarding the attitude of men towards women-only microfinance initiatives. This alternative theory suggests that the degree and structure of the inequity will determine its acceptance or not. Therefore, the male population's perception of how the female-favored development intervention will impact community power dynamics over time will determine the resulting male consensus. Either way, men must begin to accept that their entrenched power will begin to erode with increased development despite any rigid attempts of prevention.

Local leadership spats never are appealing to outsiders seeking to lead a painless community development intervention. Communities must support both their traditional chief as well as their elected Assemblymen. While these figures place in society is certainly evolving, both a currently essential to maintaining peace and progress at the village level. It is the responsibility of residents to avoid instigating tension between the two leaders. Village residents also expressed a clear understanding of their local leaders' roles, which in their view encompassed a wide range of duties and expectations. These leaders in return noted the overbearing pressure put on them by the

community to deliver results. While residents should continue to hold their local leaders accountable for being proactive in soliciting development projects and government funds, they themselves must also play a crucial part in making their leaders' pursuits justifiable. In other words, traders and farmers must work to create a community that a microfinance institution would be more than willing to do business with. It would be unfair to expect local leaders to attract microfinance agents to a village that is unfit for such services.

On that note, communities must find ways to demonstrate an evident "self-help" mentality, as called upon by microfinance managers. While such a trait is typically ingrained within a tight-knit community culture, certain activities can be emphasized to convince agents during community assessments. These include internally driven projects and practices such as building schools and latrines with indigenous resources instead of just waiting for the government or outside organizations to come build one. Also, residents seeking microfinance services should plan on traveling with leaders during their trips to microfinance offices to show strength in numbers. Managers will be more impressed if a local leader arrives with twenty loan applicants as proof of demand.

Once an aid organization or microfinance institution has expressed interest in a community, its residents must be willing to contribute significantly to a development project. Gone are the days of free handouts, and rural villages must respect this trend of sustainable development aid that calls on meaningful community buy-in. It is a shame to have to turn down a development partnership, and residents need to support their leaders through actions.

If residents manage to secure loans from microfinance institutions, they must do so with a clear understanding of the terms and conditions and must be confident in their ability to repay on time. To take a loan from a microfinance institution with a reasonable risk of default is doing the entire community a disservice. If community members default and are unable to repay,

microfinance agents might get spooked and pull out of a village. Besides the immediate loss of working capital for many residents, this departure could have more negative, long-lasting effects, as future organizations will note that a microfinance institution came and left due to defaults. Therefore, residents should do their best to repay. As most microfinance operations use the group lending method, individual defaults are usually avoided. However, in cases where group lending is not in effect, a community as a whole should see the benefit of bailing out an individual resident at risk of default. Maintaining a healthy repayment history might also lead additional microfinance institutions to enter the community, with the resulting competition lowering the cost of borrowing.

Recommendations for Local Leaders

As the “gatekeepers” of rural villages, chiefs and Assemblymen have the most contact with prospective development partners and can therefore influence outsiders’ first impression for good or for bad. Interviews exposed a variety of productive habits practiced by these local leaders, but also pointed to constraints that can be countered with more efficient methods. If a local leader’s aim is to increase the financial capacity of a community, he must cater to both the needs of his constituents as well as the demands of microfinance agents.

As a rule, measures taken by leaders to make their communities more attractive to outside investments should always be beneficial to the community as a whole, regardless of whether or not investment subsequently pours in or not. This approach will prevent leaders from wasting valuable time and resources for naught.

The first step any local leader should take is to formulate a coherent and written community action plan that represents the community’s most pressing needs. It should be reached by consensus and include both realistic short and long-term goals. This document can easily be pointed to during community assessments by outsiders and will inform organizations whether or not their particular intervention fits into the community’s own agenda.

Next, a village must have the capacity to earn additional income, given the chance to borrow. Some villages lack easy access to basic amenities that make earning a significant return on leveraged capital from microfinance loans very inconsistent, if not near impossible. Microfinance institutions will decide against working in a particular village if they deem it unlikely for its members to earn consistently appropriate returns, a conclusion they typically make in their community entrance and initial questionnaire phase.

Local leaders should take the initial step by enhancing their community's economic potential on their own without assistance from outside organizations. They can organize internal development projects and encourage the formation of informal savings and loans groups among village residents. This preemptive action prepares individuals for the types of activities expected by microfinance agents, and allows potential agents to simply enter a community and inject additional funds into an already functional system. Local leaders should also take it upon themselves to coordinate community investments such as tractors, boreholes, and grinding mills, as some chiefs in this study have already done, as well as establishing a "market day" in their community if not already existing to attract increased trade. Microfinance institutions are especially keen on seeing market days since they feature their preferred final stages of production. Mobilizing able community members to improve road conditions leading to the village will benefit traders traveling to other markets, as well as leave prospective microfinance field agents feeling confident that they can travel by motorbike to the village, even in the rainy season – a frequent concern cited during interviews with agents.

Local leaders must also oversee the upkeep of existing resources and facilities to prove that the community is capable of responsible and sustainable growth. Leaders should take good care of any structures built by outside organizations, as these will be closely examined during outside assessments. Leaders should maintain positive relations and communication with past

organizations even after they have left the community, as they can serve as useful references when prospective organizations inquire about past partnerships. Above all, they must ensure the conservation of community resources such as land, water and plants – which serve as entrepreneurial springboards from residents, as witnessed by the frequent collection of naturally occurring free shea nuts and firewood by female traders.

Once in partnership with a microfinance institution, local leaders must do everything in their power to ensure a positive relationship. This includes counseling potential borrowers on the terms of loans. Leaders should not rely on the microfinance agents themselves to properly identify the most reliable borrowers or communicate the loan conditions. Since many residents are illiterate, local leaders are left to translate. Luckily, chiefs and Assemblymen generally are the most familiar with their village residents so are aware of individuals' capabilities and tendencies. Ensuring a positive relationship with a microfinance institution means avoiding defaults at all costs, as this can have immediate and long lasting consequences if the microfinance agents are spooked, as mentioned earlier.

While leaders should continue to be gracious hosts, they also need to remain steadfast protectors of their people. They need to practice due diligence when first meeting a new organization. Chiefs and Assemblymen should do background checks of the organizations that approach them by examining the other communities they have worked with nearby, if any. This is to avoid dealing with inexperienced organizations that have a higher chance of wasting the community's time and resources. Asking questions can also help prevent scammers from ripping off innocent farmers who don't know any better. Any reputable organization should have no problem responding to such inquiries and requests for proof of identification, and should even welcome such security measures. In return, leaders must be honest about what their community has to offer, including a fair internal assessment of the community's willingness to contribute

towards projects. There is no point in leading outsiders on about how much residents are able to bring to the table, as they will just leave later on, very frustrated and likely to give bad references about the specific community to other organizations.

Finally, local leaders must be innovative. With limited funds and constituents that sometimes struggle just to get by every day, solutions must be made that seemingly make something out of nothing. One way leaders can make a breakthrough is by working together to pool resources from a number of adjacent communities. As noted in Section 4, one Assemblyman was able to obtain funding for a new school by bringing together three chiefs and getting endorsements by the District Assembly and the Ghana Education Service. Such initiative is very attractive to microfinance agents because it demonstrates unity and the ability to make things work no matter the conditions.

Recommendations for Microfinance Institutions

While usually guided by an idealistic mission statement, and sometimes shareholders, microfinance institutions must adapt to the specific locales in which they operate. As discussed in Section 1, it is naïve to believe that agents can use the same approach anywhere and be just as effective. Each unique environment must be analyzed to find more suitable approaches for the delivery of financial products. As of now, the emerging microfinance industry in Ghana is expanding rapidly; enough that they have begun to reach the farthest and most remote rural villages in the country. Yet their effectiveness is in question and reputations at stake, given the insights from a small selection of rural farmers and traders interviewed during this study. To reconnect with their direct beneficiaries, microfinance managers and field agents must take heed to what their clients and local leaders are saying about them, whether they like it or not. Their approach must be considerate of indigenous culture and adapt to local arrangements.

First, microfinance organizations must be wary of entering a community half-heartedly. Communities are growing tired of frequent visits that require time and energy from local leaders that only result in empty promises. Village residents have warned that such visitors will find it harder and harder to set up such meetings. Microfinance agents should do as much background research on a specific community as possible before setting up a meeting with leaders. To the same point, microfinance representatives need to clearly describe the expectations they have regarding community contributions as well as the types of loans offered to ensure that they are suitable for residents. Establishing a clear understanding upfront should avoid tough discussions later on and prevent operations from being launched that are destined to fail.

To combat the growing frustrations by men that they are being ignored by microfinance, managers should devise alternative assistance programs for men, perhaps by partnering with a non-profit that offers technical assistance to farmers. This approach could avoid stirring resentment within a small community in which consensus is needed to operate successfully.

Microfinance institutions also need to make a better effort to communicate with the District Assembly. At the very least, managers should inform local politicians of their institution's recent progress as to not leave them out of the loop. As noted earlier, if the District Assembly does not know where and how microfinance institutions are currently operating, it cannot make informed funding decisions, which is crucial given its already limited funds. Further, despite its inefficiencies and political distractions, the District Assembly still represents a concentrated forum of community leaders that could serve as a valuable marketing platform for microfinance managers wishing to engage with new client markets. Managers could make presentations and sponsor workshops for chiefs and Assemblymen to explain the microfinance industry's perspective. This would give managers and agents an opportunity to inform local leaders on how they can better prepare for a prospective agent's visit and why the industry as a whole enforces certain loan

applicant qualifications. It is important for local leaders to understand the criteria used by evaluators in the community selection process. They could even offer a template of an effective community action plan. All of this would save everyone time and energy and clear up a lot of confusion. In the meantime, managers would have an easy method of marketing themselves and provide a way for motivated local leaders to locate them. Otherwise, if microfinance industry leaders continue to ignore the District Assembly, they are essentially discrediting local government as a whole.

Practitioners of microfinance must also adapt and design their products to cater to existing economic structures, such as the way farmers retain their crops until prices rise. Otherwise, agents aren't providing solutions to real problems. In fact, unless institutions streamline the product offerings and loan application process so that even illiterates can understand the terms, the industry runs the risk of being seen as inaccessible by a majority of the adult population. Interviews demonstrated how village residents are left in the dark, with some claiming that they weren't selected simply because the process was "computer random."

Finally, if a community doesn't meet a microfinance institution's standards, agents shouldn't just abandon it. Such a community should be referred to other non-profit organizations that might be able to increase the residents' capacity so that one day it can be suitable for a microfinance institution. It's the least an agent can do, since both parties have already invested time and energy during the needs assessment. This approach was only mentioned by one institution, but should be included in every microfinance operation's policies.

Going Forward

Increasing financial inclusion and promoting sustainable development requires the constant improvement from all relevant actors. The above recommendations are simply ideas that emerged from using interviews with such actors in their given settings. As mentioned in Section 2, future

studies with greater resources at hand can tackle this issue more head on, with a better chance to impact policy in rural Ghana. The insights revealed in this report hopefully also illuminate the need to further examine such indigenous cultural structures as a means to improve and sustainably expand microfinance service delivery across the developing world.

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Appendix

Interview Question Guides

For Chief:

How long have you been a Chief?

Can you tell me about your role as Chief in village development?

How often and for what reasons do NGOs and microfinance institutions approach your village?

When NGOs and microfinance institutions approach you, how do you choose which ones are suitable to work in your village?

In the village, how do people save their money?

How often do residents of your village travel to town? For what reasons?

How do you decide when and to whom to sell your crops and goods?

What is your relationship with the outside traders that might buy crops in the village?

In the village, who is responsible for arranging the purchase or rental of large investments such as tractors?

For Microfinance Practitioner:

How long have you been a microfinance practitioner?

How long have you been working in these communities?

How do you select the villages you work in?

How do you initiate contact/presence in a new village?

Can you tell me about your biggest obstacles when working in a village?

Can you tell me about any difficulties you have encountered in dealing with village leaders?

Can you tell me how the role of the chief has changed because of increased development?

Can you tell me about any significant gains or progress that your microfinance work has contributed to these communities?

Can you tell me about any alternatives to the microfinance activities and services that you offer to these communities that might occur without your presence? For example, how would community members save or borrow money without you?

Can you tell me about the major difficulties faced by villagers in expanding their access to financial services?

For Farmer:

Can you tell about the role of the Chief in village development?

How do you decide when and to whom to sell your crops and goods?

Do outside traders offer you any (financial) credit for purchases of agricultural supplies such as seeds or fertilizer?

What other money-earning activities does your family partake in during any given year?

Can you tell me about how you save money?

Can you tell me about how or if you ever borrow money?

Have banks or microfinance institutions ever come to the village to offer credit or savings?

Have you gone to town to inquire about credit or savings services? Or thought about it?

For Trader:

What is your relationship with these communities?

How long have you been working in these communities?

What criteria do you use to select villages to work in?

How do you initiate presence with a new village?

Can you tell me about your biggest obstacles when working in a village?

Can you tell me about any difficulties you have encountered in dealing with village leaders?

Do you offer any (financial) credit to the farmers that you buy from?

Can you tell me how the role of the chief has changed because of increased development?

For Assemblyman:

How long have you been working in these communities?

How do you initiate presence in a new village?

Can you tell me about your biggest obstacles when working in a village?

Can you tell me about any difficulties you have encountered in dealing with village leaders?

Can you tell me how the role of the chief has changed because of increased development?

Can you tell me about any significant gains or progress that your work has contributed to these communities?

Can you tell me about any alternatives to the activities and services that you offer to these communities that might occur without your presence?

Can you tell me about the major difficulties faced by villagers in expanding their access to financial services?

Notes

ⁱ In this report, microfinance institutions and practitioners refer to the policies and practices of individual managers and field agents.

ⁱⁱ The official language in Ghana is English, which dominates the government, business, and education domains, but almost every Ghanaian speaks a local tribal language. Throughout most of the Northern Region, the primary ethnic group is the Dagomba people, who speak Dagbani. While interviews with local politicians and microfinance practitioners could be conducted in English, a translator was necessary for interviews in village communities, where many informants only knew their local language and were illiterate.

ⁱⁱⁱ As both guides had other commitments, one working a part-time job and the other still studying in college, they alternated in their assistance, with just one accompanying me during research activities at a time. Both guides have spent time living in rural villages, an academic requirement for most tertiary students.

^{iv} These guides either had first-hand experience working on development projects in these communities or knew friends that had spent time there.

^v An interesting note was that during community entrances, we asked the first person we came across to assist us with meeting the community leader. Every time we were brought to a male chief figure, who was usually surrounded by an all-male Council of Elders. Despite the mention of Queen Mothers in chieftaincy literature, not once did I encounter such a figure, nor did a single informant mention the role of a Queen mother in community development. A reason for this could be that I never explicitly asked about a Queen Mother. Or, it could be that their presence is not as influential in this particular region. This observation again reminds us that the chieftaincy culture differs across the nation, with this research concentrating only on the Dagomba-specific culture.

^{vi} Clarification questions were also asked, as informants often would begin with a personal story related to the topic and end up sharing details completely unrelated to our investigation. Some informants also did not

understand certain questions at first, so alternative phrasing would be used. In this regard, the role of the translator, while necessary in this setting, certainly presents drawbacks as important insights and details can be lost in translation. To ensure that the question and answer content was consistent between the two translators, the researcher and both translators reviewed each question and its purpose together beforehand.

^{vii} At the out start of each interview, the informant was given an oral explanation about the purpose of the study and its voluntary nature, in addition to signing or marking their acknowledgement on an official consent form. Every informant was also informed that their identity, barring general background information, would remain anonymous. For this reason, the names of individuals, communities, or organizations are not included in this report.

^{viii} Speaking with the chief alone was unrealistic as it is customary for him to be surrounded by his Council of Elders when hosting outside visitors.

^{ix} This could help in not appearing lazy or corrupt. This would protect the institution from any potential criticism, even if deserved. Microfinance practitioners might also seek to avoid revealing trade secrets in an increasingly competitive industry.

^x In a microfinance manager's eyes, there is no reason to compete with another organization in an individual community when there are many other communities that will have no competition at all. The competition will drive down interest rates and therefore margins, which a microfinance institution relies on to continue to expand their operations. Also, if residents see that two organizations are competing over them, clients have a tendency to delay repayments, as microfinance agents will be forced to be more lenient so they don't lost their customers.