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The Impact of Credit Unions on Poverty Alleviation in Selected Communities in Ghana

By Henk van Oosterhout and Ernest Senyo Dzandu

BRIEFING NOTE

The purpose of this note is to provide a synopsis of the impact assessment entitled: "The Impact of Credit Unions on Poverty Alleviation in Selected Communities in Ghana", a study commissioned by the Canadian Cooperative Association completed by Henk van Oosterhout and Ernest Senyo Dzandu. The study assesses the impact that credit unions have on poverty alleviation in four regions of Ghana. The briefing note highlights the report's conclusions as well as limitations of the research.

Background:

The objective of the study was to determine the impact of CCA-CUA Rural Community Credit Union Development Project (2006- 2008) which was composed of financial support and training program for participating credit unions, on the financial and human capital of credit unions and how this is linked to improved livelihoods and poverty reduction of the members.

To carry out the impact assessment, the consultants selected four credit unions that received at least two years of technical and financial support from the CCA-CUA project and compared their performance with four credit unions which were not beneficiaries of the project. The credit unions were located in different parts of the country: (Brong Ahafo Nsoatre CU; Eastern Region: Nkawkaw CU; Greater Accra: Madina Community credit union; Volta Region: Ho Women credit union). The four credit unions that did not benefit from the project were selected on the basis of similarities with the first group at the time they joined the project. The consultants studied their audited financial reports for the period 2004 to 2008 and held in-depth discussions with the management.

To make the link to improved livelihoods and poverty reduction, the consultants organized group discussions with Credit Union members and non-members in the area and completed financial diaries of selected households. Respondents of the survey were randomly selected from an updated membership list, while the non-members were the neighbors living on the left of the selected credit union members.

Major findings:

There are plenty of positive developments associated to credit union membership. Ninety percent of Credit Union members said that the purchasing power of their income has improved over the last five years (70% for those who did not join credit unions). Further, 83% of the members had the impression that they are better off today than they were five years ago, against only 40% for non-members. Credit union members also reported more spending on education, business and durable assets than non-credit union members.

Credit union members reported the acquisition of more assets in the last five years than non-credit union members. About half of the borrowing respondents also expanded their businesses between 2004 and 2009 while only 17% of the non-members did so.

Key Findings:

- 90% of credit union members said that the purchasing power of their income has improved over the last five years versus 70% on those who did not join credit unions.
- 83% of the members had the impression that they are better off today than five years ago against only 40% for non-members.
- Credit union members reported more spending on education, business and durable assets than non-credit union members.
- Credit union members reported the acquisition of more assets in the last five years than non-credit union members.
- About half of the borrowing respondents also expanded their businesses between 2004 and 2009 while only 17% of the non-members did so.
- Non-members who did not have access to small loans during time of vulnerability had to take more drastic measures such as selling assets, cutting down more often on daily expenses and taking children out of school more frequently (20% for non-members versus 6% with members)
- Credit union members on average have savings which are four times bigger than non-members.

The success of the credit union membership however should not only be gauged by business growth and employment creation, but consider social protection as well. Access to loans has saved more businesses of credit union members. Credit union membership means being better prepared for risky events or being able to take advantages of business opportunities. Non-members who did not have access to small loans during times of vulnerability had to take more drastic measures such as selling assets, cutting down on daily expenses more often and taking children out of school more frequently (20% for non-members versus 6% with members). Also, non members more often reported that they could take advantage of investment opportunities because they did not have access to loans or because they did not have the savings. Credit union members on average have savings, which are four times larger than non-members.

Further Report Findings:

- The majority of the respondents reported **higher income levels**, not only in nominal terms but also in terms of purchasing power. Members of credit unions reported more often that their income has improved, their asset situation is better and that they have saved more money than non-members.
- Credit unions reach the poor but not the extreme poor; Credit Union members' income is only 60% of the national average household income. On the other hand, members of the credit union have higher assets and liabilities than the control group, but have similar livelihoods and income levels as the non-members. By far the most common source of income of members is trading. Community based credit unions do not have many members who are salary workers.
- The impact membership has is measured in asset growth but especially in terms of **social protection**. Members of credit unions usually recover more quickly from adverse events than the control group.
- Respondents who are members of the credit union reported they borrowed money approximately twice as often as non-members. Also, the borrowing amount was between three to four times higher than non-members.
- Members of the credit unions reported that their financial coping skills have improved much more than non-members.
- Members of the credit union are also more optimistic about the future than non-members
- Credit union members **expanded their businesses** more often in the last five years than non-members.
- The creation of jobs is small in all three groups of respondents (members of supported credit unions, other credit unions and non-members). When borrowers take a loan, it is because of the financial needs of their businesses

or that of the household, not necessarily with the intention to create new jobs. Further the amounts they borrow are too small to create new jobs.

- Further what is particularly advantageous is the **flexible loan use.** The ways the respondents use the financial services show that the spheres of consumption, production, and investment are not separated. Households do not just borrow or save; they manage a portfolio. Members of the credit unions therefore use these services as a social, insurance and sometimes investment devices. Access to savings and loan services prevent members from falling below the poverty line, and are less often used to expand businesses and generate more income.

Impact of the project at the credit union level:

- Credit unions that have received support generally did not perform better in terms of portfolio quality than the control group credit unions. Delinquency is an issue across all credit unions. With a delinquency rate that hovers around 15 to 17% and shows no signs of improvement, the quality of the portfolio of all credit union is unsustainably low.
- No differences were found between the scope of products offered by credit union with CCA support and the control group.
- All credit unions show a growth in terms of membership, deposit, portfolio and the like. As a group CCA supported credit unions did better in terms of membership (especially Madina and Nkawkaw).
- Depth of outreach is measured here in terms of female participation and increasing the number of youth members. The Madina and Ho credit unions (both supported by CCA) have substantially increased female membership from 36% to 59% and 36% to 56% respectively. Other credit unions did not show an increase of female members. There was no significant difference with youth engagement.
- The credit unions that received support from the project have higher income levels than the control group, but all still have a long way to go before they have reached financial self-sufficiency.
- The greatest impact of the CCA project was the recruitment of a full-time bookkeeper. In two cases this recruitment meant that some countervailing power was established against very powerful Boards or chairpersons of the Board and with this has improved the governance operations of these credit unions.

Limitations of the study:

Credit unions that participated in the project did not perform substantially better than the control group. This could indicate the project intervention was too "*light*" and spread across too many Credit Unions. Also the impact of the local environment in which the credit union operates plays a major factor. It was acknowledged by the consultants and CUA that the growth or decline of the credit unions are the result of personalities in the organizations, the situation of internal checks and balances, and especially the operations of the supervisory committees and the risk managers of the credit unions. Against this background, the trainings offered by the CCA-CUA project were too light to have a substantial impact on the performances of the credit unions.

In addition, the consultants agree that it is difficult to make far-reaching conclusions on the success of the project when a comparison is made between the performances of a credit union that benefited from the project and those that did not. Further the technical assistance CUA provided to the credit unions was part of an overall CUA training and consultancy program so many of the activities under the project was also accessible to the control group which made it more difficult to measure differences in performance. Essentially, there was no control group against which to compare the impact of the project.

In terms of the findings of credit union members versus non members, while there are clear differences between income, assets, savings and loans between members and non-members, attribution proof remains difficult. Further there are no co-variances between members of participating credit unions and non-participating credit unions in these areas.

Conclusion:

The way respondents use financial services show that consumption, production, and investment in their households cannot be separated. Households do not just borrow or save, they manage a portfolio. Members of the credit unions therefore use these services as a social, insurance and sometimes as an investment device but more often as a means to prevent falling below the poverty line, and less as a financial instrument to expand businesses and generate more income.

The success of the CCA project should not only be gauged by business growth and employment creation alone but by social protection as well. Access to loans for instance has saved more businesses of members of CCA supported credit unions than of members of other credit unions. Only very few non-members reported that this was the case for their businesses.

Credit unions are appreciated for being reliable when it comes to granting loans also during financially difficult times; some credit unions even have emergency loans. Non-members who did not have access to such financial services had to take more drastic measures during difficult times such as selling assets, cutting more often on daily expenses and take more frequently children from private school and bring them to public schools. Members of the CCA supported credit union members reported more often that they felt financially secured than other credit union members (or non-members).

The project did seem to improve the empowerment level, but a more determining factor seemed to be a longer-term membership in a credit union. In sum there is a correlation between increased assets, increased income and increased savings with membership in a credit union. There is also a link between feelings of financial security, empowerment and optimism with membership but the relationship is complex and multi-dimensional.