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MINIMIZING EARLY FAILURES OF MICROFINANCE COMPANIES: A CASE OF GHANA

Business Economics

2018

ACKNOWLEDGEMENT

My first acknowledgement goes to God Almighty for making it possible to be in such a wonderful university with his guidance and protection throughout. I acknowledge the directions and guidance of my supervisor Mr. Niklas Kallenberg for the support throughout the thesis work, and aside that he has thought me a lot in all the five different course that I undertook in the university.

The next appreciation goes to anyone who made this thesis a successful one.

The last acknowledgement goes to family and friends who gave their motivation and encouragements during the thesis period.

Thank you.

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ABSTRACT

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Title	Minimizing Early Failures of Microfinance Companies: A Case of Ghana.
Year	2018
Language	English
Pages	56 + 1 Appendix
Name of Supervisor	Niklas Kallenberg

Mikrotason syntymästä 1970-luvulla Bangladeshissa ala on kokenut valtavaa kasvua osoittaen, että se voi poistaa köyhyyden. Kasvava huolenaihe on kuitenkin alan äkillinen kasvu, joka on johtanut rahalaitosten epäonnistumiseen tai romahtamiseen mikrorahoituslaitoksessa (”MFIs”). Ghanassa romahtaneet mikrorahoituslaitoksessa ovat pysyneet korkealla tasolla, mikä edellyttää kiireellisten toimenpiteiden tarvetta. Seuraavassa tutkimuksessa pyrittiin määrittämään mikrorahoituslaitoksessa takana olevat tekijät romahtaessa ensimmäisen toimintavuoden aikana ja ehdottamalla keinoja niiden voittamiseksi.

Kirjallisuuskatsauksessa tarkasteltiin aikaisempia tutkimuksia, jotka koskivat rahalaitosasetuksia, sääntöjen noudattamisen laajuutta, ennakkoehtoja, jotka on täytettävä ennen lainojen myöntämistä potentiaalisille asiakkaille in mikrorahoituslaitoksessa ja rahoituspalvelujen tarjoajille (”FSPs”) sekä piilotetut asiat, jotka liittyvät mikrorahoituslaitoksessa toimintaan. Tutkimuksessa käytettiin puolistrukturoitua haastattelua tietojen keräämiseksi yhdeksästä osallistujalta.

Tutkimuksessa todettiin, että mikrorahoituslaitoksessa sääntelyä oli tarpeen suojata suurelta yleisöltä hyödyntämiseltä. mikrorahoituslaitoksessa sääntöjen noudattamisen osalta selvityksessä todettiin, että eräät Ghánassa sijaitsevat mikrorahoituslaitoksessa eivät ole lisensoituja ja ne, joilla on toimilupa, eivät ole täysin noudattaneet määräyksiä. Jotkut henkilöt havaitsivat piileviä motiiveja heidän osallistumisestaan mikrorahoituslaitoksessa.

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ABBREVIATIONS

MFIs – Microfinance Institutions

BOG – Bank of Ghana

ROSCAs – Rotation Savings and Credit Associations

GHAMFIN – Ghana Microfinance

KOPSB - Kenya Post Office Savings Bank

UNDP – United Nation Development Program

GHAMP – Ghana Microfinance Policy

OFISD – Other Financial Institutions Supervision Department

NGO – Non Governmental Organization

RurBank – Rural Bank

NBFIs – Non-Bank Financial Institutions

Coop – Cooperatives

FSPs – Financial Service Providers

FGDs – Focused Group Discussions

MDG – Millennium Development Goal

CBN - Central Bank of Nigeria

1 INTRODUCTION

1.1 Background information

People have been saving and/or taking loans from individuals or groups in non-formal set-ups such as rotating savings and credit associations (ROSCAs) for many centuries. For example, in Asia, microfinance has existed in various forms dating back to a thousand years as informal borrowing and lending (Nanfosso, 2011). However, the first “modern” Microfinance (MFI) was founded by Muhammad Yunus who proved that the poor are bankable and this birthed microfinance. Microfinance was formed on the conviction that poor people have the ability to lift themselves out of poverty if they are given access to financial services (Madichie and Nkamnebe, 2010). Microfinance appreciates the fact that micro-entrepreneurs and poorer clients can be bankable. Bankable means that they can save, repay both the principal amount and the interest promptly provided the financial services suit their varied needs. Figure 1 shows the percentage of adults who have a bank account from different parts of the globe:

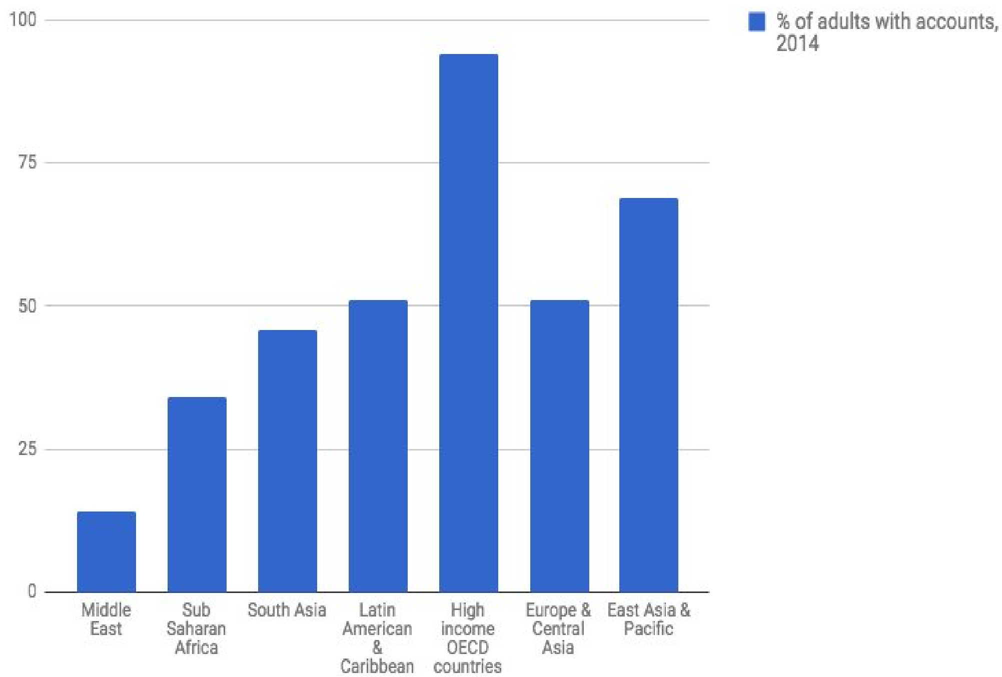

Figure 1 Percentage of adults with bank account in 2014 Source: Hodgson (2017)

In the mid-1970s, Muhammad Yunus formed the Grameen Bank as an experiment in Jobra village, in the outskirts of Chittagong University, rural Bangladesh. His vision was to provide small loans (less than $30) to poor people who were mainly excluded from the formal financial institutions providers (Rahman, Khanam and Nghiem, 2017).

Yunus started a project meant to test whether lending of small amounts of money to the poor people can be of any benefit (Ahmed, 2009). According to Uddin et al (2018), the project revealed that they were much able to repay their loans. This prompted Yunus to create a special bank for offering such services in Bangladesh. He named it Grameen Bank, which translates to "village bank" (Acs and Sany, 2009). Grameen Bank soon spread to other villages in Bangladesh. Initially, the clients were both men and women. However, after a while it became clear that women were far much better at repaying the loan than their male counterparts. This prompted Yunus to limit his services to local women (Bateman, 2010).
Microfinance refers to the provision of small amounts of money through a variety of products mainly to the low-income earners (Sama and Casselman, 2013). The products range from savings, loan, insurance and other financial products and services. Low-income earners are targeted by microfinance institutions (MFIs) because they are thought to be "unbankable". Formal financial institutions such as commercial banks and credit unions have traditionally avoided giving credit to this category owing to the fact that they are highly risky. Figure 2 presents facts on the Micro Finance Industry in Ghana.

Key Facts : Microfinance in Ghana				
By CGAP[1]	No. of MFIs	No. of Borrowers	Borrowers Population[a]	Borrowers/Poor[b]
	51	322,000	1%	4%
By MIX[2]	No. of MFIs reporting (2010)	No. of Active Borrowers	Gross Loan Portfolio (USD)	Average Balance per Borrower (USD)
	55	194,786	71.7 million	352
By MFT[c]	No. of MFIs (2011)	No. of Active Borrowers	Gross Loan Portfolio (ETB)	% Products with a Flat Interest Rate
	90	580,786	302.7 million	84%

Figure 2: Facts on Micro Finance industry in Ghana.

Source: Sama and Casselman (2013)

Based on figure 2 above it is evident that the microfinance concept is not new in Ghana, similar to other emerging economies. As early as in 1955, the first credit union was established in northern Ghana by Catholic missionaries (Salia et al., 2018). According to Akudugu (2011) almost every village in Ghana has an MFI, They are usually formed as an anti-poverty reduction scheme offering small loans and other financial services such as current and saving accounts to low income earners, farmers and small traders. The most common form of microfinance is *Susu*, which in local language means savings or deposits. Available literature by Okoe and Boateng (2016) revealed that MFIs have the potential of helping poor households to meet basic needs in addition to improving their quality of life. Further, most MFIs target women therefore empowering them and thereby promoting gender equality.

Salia et al., (2018) observed that micro financing in Ghana has had various benefits among them assisting low-income earners such as farmers, traders and other poor people in generating income, creating jobs, enabling children attend schools, obtaining health care and improving the quality of their lives. Also, Madichie and Nkamnebe (2010) argue that MFIs can help attain millennium development goal 1 (MDG_1) on poverty alleviation. Figure 3 shows the Ghanaian poverty Index and the poverty level in Ghana have fallen significantly since 2005.

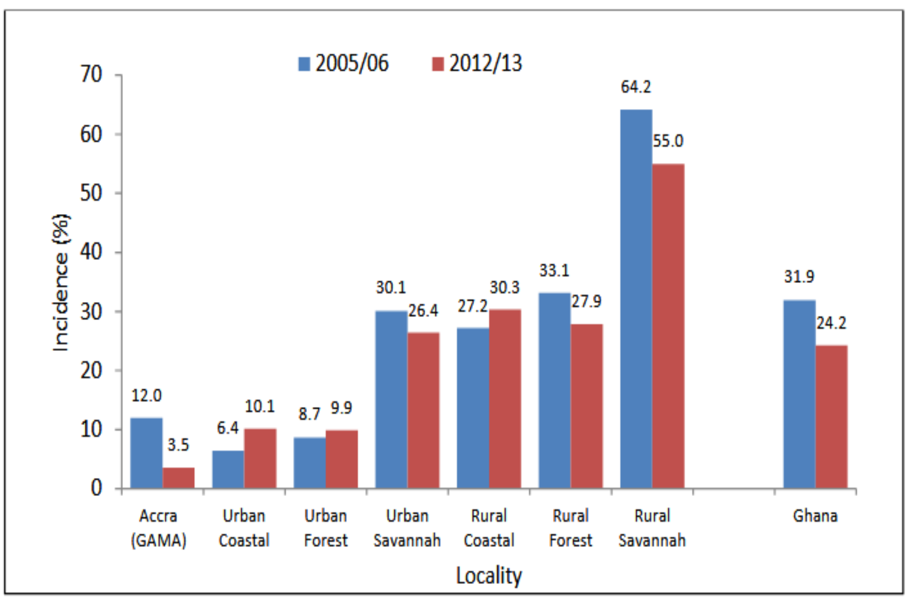

Figure 3: Poverty index in Ghana

Source: Hodgson (2017)

Although MFIs are supposed to alleviate poverty, several authors have indicated they have ended up fuelling poverty by pushing poor people deeper into poverty shackles. Ablorh (2011) observed that MFIs had shifted their focus from helping poor people access credit to focussing on proliferation and profitability. Belnye (2011) reported that MFIs in Ghana were experiencing challenges that have caused some to either close down or collapse. This is despite the measures by the Bank of Ghana (BOG) to close many MFIs after a public outcry. Boateng et al. (2016) observed that the public had lost confidence in MFIs due to their continued collapse. It is from such background that this study seeks to determine the reasons behind MFIs failure in Ghana, especially during their first year of operations. The study intends to identify best strategies and procedures for MFIs which upon being implemented will help minimize early failures of MFIs especially in Ghana. Figure 4 indicates the challenges and barriers cited by adults not having bank account. Of the nine reasons, the biggest is not enough money.

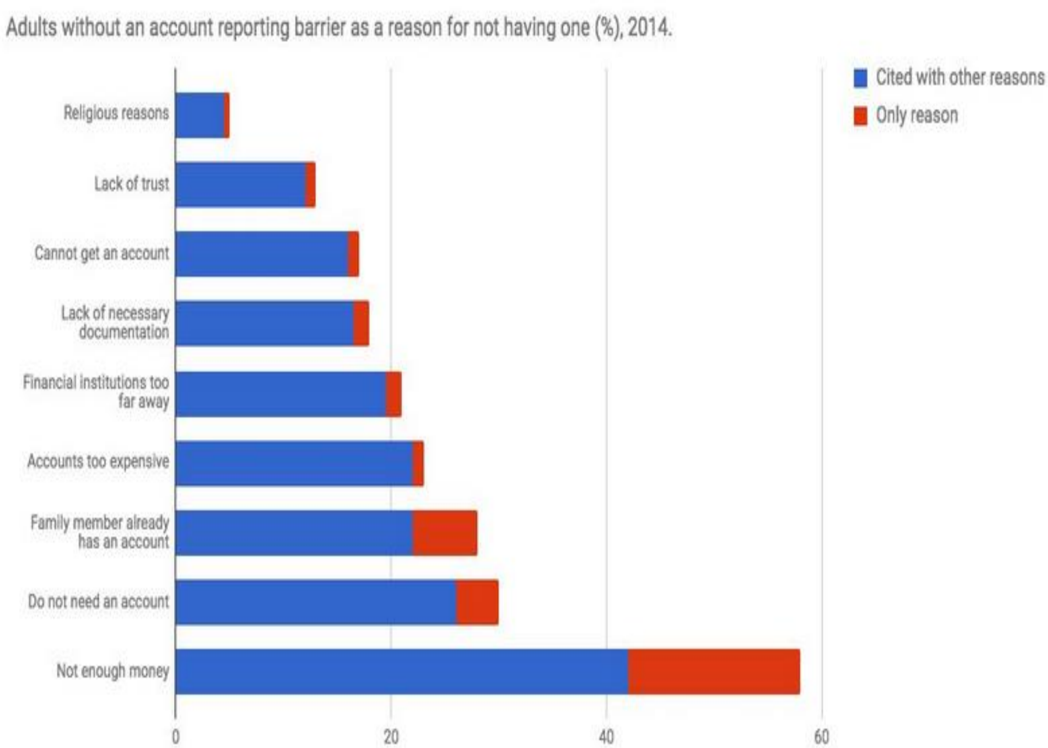

Figure 4: Challenges and barriers cited by adults not having bank accounts

Source: Hodgson (2017)

1.2 Theoretical rationale

Sarpong, (2018) asserts that the challenges being faced by MFIs are quite daunting and numerous and in a bid to offer solutions, a number of publications have been fronted. Muhammad (2010) conducted a study to examine the challenges being faced by MFIs in Pakistan and found out that increased competition, inadequate human capital and improper regulations were the challenges that were impeding the sector and resulted in failure of MFIs. The study concluded that the challenges were impeding the growth and hindering opportunities for expansion of microfinance sector in the region. After carrying out a study to investigate the role of the microfinance in poverty alleviation in Tanzania, Provident and Zacharia (2008) it was found out that limited access to credit due to lack of collateral and was the main challenge being faced by poor people in the country.

Sarpong (2018) laments that the majority of the studies in challenges being faced by microfinance sector have not managed to offer solutions that would yield the expected results because of the generality in their findings. The studies have not considered the differences in economic levels, regulation, and capability of financial and human capital. As a result, the solutions have not addressed country-specific challenges. Sarpong asserted that each and every country has its peculiar and unique challenges that require solutions that are specific well-thought and tailored to its unique characteristics. It is from such background that this study seeks to determine the reasons behind MFIs failure and identify strategies and procedures which upon being implemented will help minimize early failures of MFIs specifically in Ghana. Further, it is expected that the study will contribute to the body of knowledge by suggesting policies and recommendations if applied, will lead to formation and implementation of a strategy for enhancing success in MFIs.

1.2.1 Practical rationale

The microfinance sector has been experiencing tremendous growth since its humble beginnings in 1970s in Bangladesh.

MFIs in Ghana have experienced challenges that have caused some to either close down or collapse. In 2008, the BOG closed down some MFIs while responding to extensive collapse and subsequent disappearance of the financial service providers in the sector (Belnye, 2011). Despite the closure, many MFIs continued collapsing with about thirty MFIs collapsing in 2013. The number has kept on soaring high calling for urgent intervention. Presently, the Bank of Ghana (BOG) has reported that 272 out of 707 registered MFIs in Ghana have been reported to be struggling to maintain their operations and are on the verge of collapsing that out of the 707 MFIs, about 272 were struggling to sustain their operations and were on the verge of closure (GhanaWeb, 2018).

The following study seeks to identify factors behind the failure and collapse of MFIs especially during their first year of operation. The study will be important as it will unearth possible challenges being faced by MFIs and suggest possible ways of overcoming the challenges. It is expected that the findings will be useful in formulating policies which upon being enacted will lead to stabilization of MFIs. Through this study, relevant stake holders will become aware of the challenges being faced by MFIs and therefore apply appropriate interventions to curb the challenges.

1.3 Research objectives and questions

The objective of the study is to determine the factors behind MFIs collapse in the first year of operations and suggest ways to overcome them. To achieve the objective of the research, best strategies and procedures for microfinance institutions will be suggested so as to minimize failure of MFIs in the region. The main objectives are:

1. To determine MFI regulations in Ghana
2. To ascertain the extent of compliance by MFIs to the Bank of Ghana regulations
3. To determine the prior conditions that microfinance companies consider before granting loans to potential customers and compare them with other financial service providers
4. To investigate whether parties involved (lender/borrower) do have hidden agendas behind their involvement in micro finance operations that would demean the operations of the MFIs resulting to their failure.

The main questions that this research will seek to answer are:

1. What are the MFIs regulations in Ghana?
2. To what extent have MFIs complied with Bank of Ghana regulations?
3. Which are the prior conditions that MFIs must consider before granting loans to potential customers and how do they compare with other financial service providers?
4. Do parties involved (lender/borrower) have hidden agendas behind their involvement in micro finance operations that would demean the operations of the MFIs resulting to their failure?

1.4 Structure of the study

The study will consist of five sections: introduction, theoretical framework, research methods, empirical study, summary conclusion and suggestions. The first chapter of this research is the introduction chapter and it highlights the background information of this research. It also outlines the research objectives and research questions. The chapter ends with an outline of the structure of the study. The second chapter of this research presents the literature review. Previous studies that have examined MFIs in various countries and the possible reasons that lead to their failure were presented. Specifically, the review includes studies that have examined issues such as the MFI regulations in various countries. It looks into studies that explored the extent of compliance among various MFIs in different countries. It further looks into the various factors that MFIs consider prior to granting loans and how they affect the institutions. The review also looks into the hidden agendas such as profit motive of the lenders and how they affect the MFIs. The third chapter of this study describes the research methodology that was used by study. It starts by describing the research philosophy, research approach and research strategy adopted by the researcher for this study. The chapter also discussed the sampling strategy, the research instrument as well as data collection procedures and data analysis techniques that will be employed in this research. Finally, the chapter ends with an explanation on how ethics were considered in this research. Chapter four contains the findings of the study and presents the responses from the research participants. Chapter five presents the discussion of the findings and compares the findings with other similar previous studies. Chapter six is the conclusion chapter and it outlines the summary of the findings of the study followed by recommendations based on the research findings and finally end with a highlight of the limitations of the study. Table 1 shows the structure of the research.

Table 1: Research structure

Chapter	Content
Chapter 1	Background information of this research. It also outlines the research objectives and research questions
Chapter 2	Contains literature review on studies that have examined issues such as the MFI regulations in various countries
Chapter 3	Research methods and methodology
Chapter 4	Results of the study
Chapter 5	Discussion of the results
Chapter 6	Conclusion and recommendations

2 LITERATURE REVIEW

2.1 Introduction

This section presents previous studies that have examined Micro Finance Institutions in various countries and the possible reasons that have led to failure of the micro finance institutions. Specifically, the review includes studies that have examined issues such as the MFI regulations in various countries. It looks into studies that explored the extent of compliance among various MFIs in different countries. It further looks into the various factors that MFIs consider prior to granting loans and how they affect the institutions. The review also looks into the hidden agendas such as profit motive of the lenders and how they affect the MFIs.

2.2 MFIs regulations

The increased realization of the potential of microfinance in alleviating poverty and economic development in addition to effective success of MFIs has made microfinance to be a political agenda in most developing economies (Boateng et al., 2016). As a result, serious measures have been taken by the advisory committee in a bid to address the microfinance issue. A regulatory and supervisory framework has been formed to deal with the operations of MFIs due to the features and risks connected with micro financing. Okoye and Siwale (2017) argue that regulating operations of microfinance create a conducive environment for promoting financial access and subsequent growth of MFIs. This in turn promotes the social protection agenda. The regulatory requirements are expected to present a better and clearer understanding of their operations to the poor who are their main clients. According to Premaratne (2017), MFIs are prone to high risks thus require such regulations so that the risks are mitigated. The following are examples of countries' regulations regarding microfinance;

In Nigeria, supervisory and regulatory guidelines for microfinance banks (MFBs) are issued by the Central Bank of Nigeria (CBN) provided for in CBN Act of 1999 (Madichie and Nkamnebe, 2011). The guidelines are used to regulate microfinance operations and the establishment of MFBs that intend to receive deposits/savings from the general members of public, and who provide microfinance services to clients in Nigeria. The guidelines control microfinance operations so as to ensure there is balanced growth, control risks associated with MFBs operations and promote transparency. They also ensure unnecessary barriers and requirements are eliminated.

In Kenya, there are eight Acts of parliament regarding MFIs operations (Omino, 2005). They include, Banking Act, Building Societies Act, Co-operative Societies Act, Kenya Post Office Savings Bank (KPOSB) Act, Societies Act, The Non-Governmental Organizations Co-ordination Act and the Trustee Ac. Different legal structures guide the microfinance sector in the country although this has complicated the sector as argued by Omino (2005).

Microfinance regulation started in 2004 in Uganda with the adoption of the Microfinance Deposit-Taking Institution Law (Aliija and Mohangi, 2015)). The law was restricted to deposit taking institutions leaving out other MFIs that do not take deposits. The main objective of the regulations was to support a viable and stable microfinance industry in the nation so as to promote economic growth and thereby reduce poverty especially among the rural poor population. Additionally, the regulations ensured that MFIs operated in a sound and safe manner. In addition to MDI Act, the financial Institutions Act was enacted in 2004 and it was supposed to regulate credit institutions that operated like MFIs.

2.2.1 MFI regulation in Ghana

Prior to 2006, the Ministry of Finance drafted the Ghana Microfinance Policy (GHAMP) with support from United Nation Development Programme (UNDP) (GHAMFIN, 2014). The main objective of the policy was to provide guidelines on micro finance operations in the country. Although not a document in itself, GHAMP acted as a roadmap of microfinance activities in Ghana and it served the government with strategies that would make microfinance succeed in the country. Figure 5 shows some of the top Micro Finance institutions regulated in Ghana and their Gross loan portfolio as well as the number of active borrowers.

Institution	Gross Loan Portfolio (GHC)	Number of Active Borrowers
Sinapi Aba Trust (SAT)	34,500,000	107,000
ASA-Ghana	23,730,166	61,000
Bessfa RB	2,270,495	46,838
Opportunity International Savings & Loans (OISL)	24,784,265	41,836
Lower Pra RB	12,443,472	34,056
Bosumtwi RB	5,694,289	20,202
Rich Step Investment	536,965	19,109
Ahantaman RB	9,200,000	17,000
First Allied Savings & Loans (FASL)	24,767,499	16,406
Maata-N-Tudu	1,413,852	12,900

Figure 5: Top MFIs in Ghana

Source: GHAMFIN (2014)

Boateng and Acheampong (2016) reported that after a public outcry in 2011 due to the frequent collapsing of MFIs in the region, the government intervened so as to protect depositors' funds and ensure there is sound financial system in place to avoid collapsing of the sector. In 2011, the BOG sought to bring MFIs under a uniform regulatory framework by establishing a four-tier classification of MFIs and their respective registration requirements as well as permissible activities (GHAMFIN, 2014). The guidelines also contained unambiguous rules and procedures for establishing MFI, opening new branches, loan disbursement and deposit taking. BOG noted that one of the major causes of MFIs failure was liquidity problems that resulted into liquidity crisis. To curb this, the BOG formulated key requirements that must be fulfilled by MFIs. The regulations stated that a minimum paid-up capital of not less than GH¢100,000.00 (equivalent to US$50,000) and GH¢60,000.00 (equivalent to US$30,000) for all tier two and three tier entities respectively (Boateng et al., 2016). In addition to minimum paid-up capital, MFIs were expected to deposit a 10% of their deposit in an escrow account to cater for any possible predicament. Other conditions that must be met before a license is issued include approvals from relevant authorities, adequate business premises, and qualified staff, has operational plans and policies that are approved by the Board of Directors and have appropriate software (Anku-Tsede, 2014).

Sarpong (2018) reported that despite the regulations by BOG, the microfinance industry continued experiencing turbulence with more MFIs collapsing in Ghana prompting the government to come up with more stringent measures. They included increasing the minimum paid-up capital by more than five times. This measures were put in place to ensure only those MFIs with financial capability were operating. Additional funds were meant for on-going lending in addition to minimizing the risk exposure. Boating et al., (2016) reported that because of the increased supervision and monitoring activities, the BOG established a new department referred to as Other Financial Institutions Supervision Department (OFISD) whose mandate was to oversee the operations of MFIs, banks and forex bureaus in rural areas. Figure 6 demonstrates the types of MFIs that operate in Ghana.

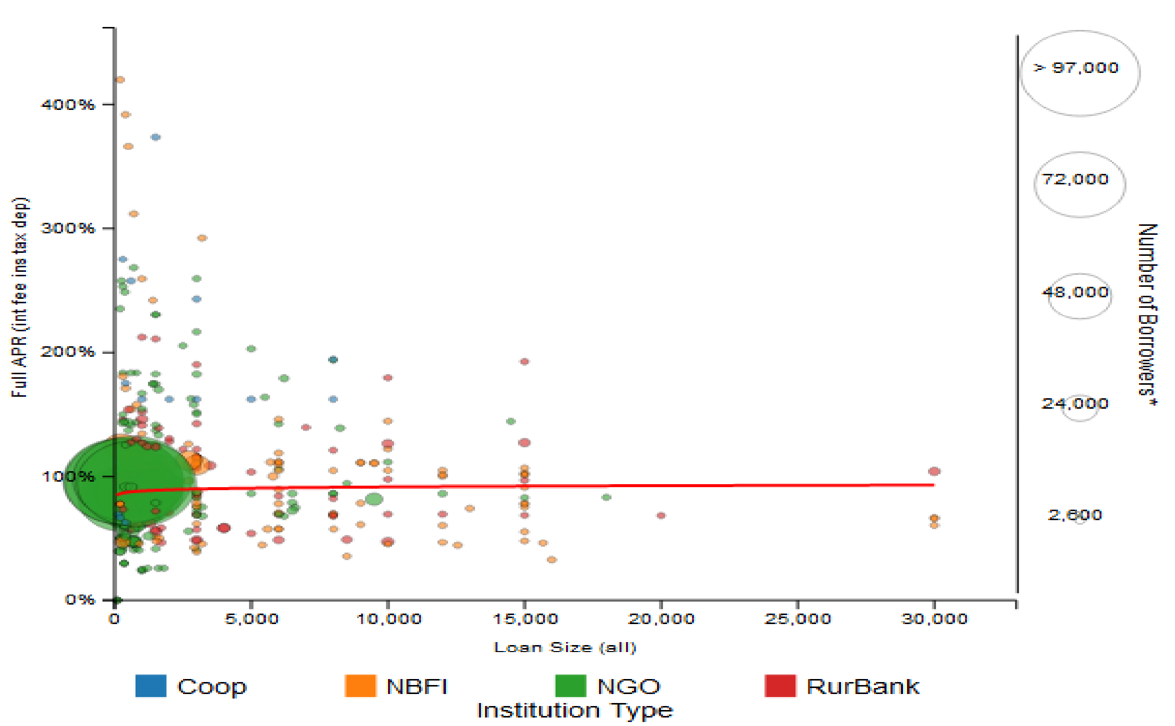

Figure 6: Types of Micro finance institutions in Ghana

Source: MFTransparency (2017)

2.3 Level of compliance

According to Aliija and Mohangi (2015), some MFIs in general were ineffective in their operations because of the non-compliance with the regulatory and supervisory framework in the host country. This crippled MFIs operations to the extent that some collapsed. Boateng, and Acheampong (2016) observed that although microfinance has proved to be a financially sustainable instrument that is capable of alleviating poverty, it has been plagued with numerous challenges. One challenge that they cited is lack of compliance with the regulation and supervision guidelines. They reported that BOG had failed in its mandate of regulating and supervising the MFIs and therefore could be a probable reason as to why MFIs were failing and collapsing. Similar sentiments were expressed by Aveh, Dzandu and Krah who reported that the laxity by the regulatory and supervisory bodies was to blame for the tremendous increase and spread of MFIs with some unscrupulous individuals engaging in unregulated businesses. Such individuals are not after the interests of the poor people but are out to make a profit.

After carrying out a study on challenges and opportunities facing microfinance sector in Pakistan. Muhammad (2010) reported that there are a number of challenges facing the microfinance sector and one of them was lack of adherence to regulations. He argued that this presented an impediment to the success of MFIs in the region. After undertaking a study on compliance on microcredit authority (2010) in selected NGOs in Bangladesh, Rahman, Khanam and Nghiem (2013) revealed that most of the MFIs in the region had a high to moderate level of compliance with legal and regulatory framework for microfinance. However, the authors cautioned that the data was collected from the MFIs directly and they did not have access to Microcredit Regulatory authority for cross examination. Further, the authors did not have access to MFIs' documentation for confirmation purposes. Areas that were reported to have high level of compliance included management level, accounts maintenance, clients' rights and deposits. Moderate compliance was reported in service charges on loan where sensible rate of rebate for outstanding loans was allowed.

Adjei (2010) reported that one of the key challenges facing the microfinance sector especially in developing countries has to do with regulation and supervision. He lamented that there were inadequate legislation to guide the sector and therefore contributing to non-compliance by the MFIs. Similar sentiments were reported by Mohammed (2010) who posited that improper regulations were to be blamed for the failure and subsequent collapse of MFIs. Nair (2010) also reported that the poor performance of MFIs was attributable to ineffective regulatory and trade policies resulting in lack of sustainability of MFI's operations.

Although the studies above have portrayed that the success of MFIs can only be attained after MFIs complied with the regulatory and supervisory framework, Omino (2005) holds different opinion. He lamented that the many Acts of Parliament that guide the operations of MFIs in Kenya did not address the ownership, accountability and governance issues and therefore have to a great extent contributed to the poor performance of many MFIs. Although regulating MFIs ensures there is financial stability of the institutions and aid in building confidence of the clients, Premaratne (2017) observed that regulating MFIs will lead to an additional cost as the institutions will be expected to pay an annual supervision fee to the regulating body. This additional cost will be transferred to the lenders therefore prompting the MFIs to increase the interest rate in addition to other charges. This has the potential of causing MFIs to fail as the high costs would make them unappealing to their clients.

2.4 Prior conditions that microfinance companies consider before granting loans to potential customers

According to Kevin (2015), the success or failure of MFIs is largely attributable to their effectiveness in managing credit systems and especially the loan appraisal process. This is the case because majority of these institutions generate income from interest obtained from loans. Therefore, before an individual obtains credit, s/he must fulfil some conditions that are dependent on the specific MFIs. Generally, the conditions depend on the specific lending model being used by the institution. The models vary in their legal form, channel and method of operation. The first and most common model is borrowed from Grameen bank when a potential customer is identified, s/he is organized into group with similar socio-economic characteristics, and then the MFI lends money to that group (Clinton, 2018). Members then chose an income generating activity and it's expected that the profits they will get will be used in repaying the loan.

The second model involves an association or a group of people. A group can be composed of about 5-20 youth or women and this constitutes the simplest unit of the MFI's operation (Esty, 2017). The group activities are managed at the group level such as records of savings, loans and loan repayment. The group members make regular savings of a certain amount of money and pool it together in a common fund. Once the group succeeded in its operations for some months, it is linked to an MFI so as to obtain credit. Group members decide on how to divide loan amongst them or they can start a micro-enterprise. They can opt for some members to receive credit first and later to the other members of the group. It is a common practise in many MFIs that the group must have a certain amount of money (Sultan et al., 2017).

In Ghana, both the individual and the group lending model are practised. Recently, the BOG came up with an Operation manual that gives details of the application process and the conditions that must be fulfilled (Musah, 2011). In the event the application is rejected, clear reasons must be stated and not based on mere suspicions. Simba and Mugo (2018) observed that the effective strategies for credit risk management resulted in financial stability of MFIs. They asserted that MFIs should ensure that individuals seeking credit should fulfil all the laid down conditions so as to reduce credit risk. Further, Konxheli and Dafina (2012) reported that MFIs should ensure there is effective credit management especially in credit risk appraisal as it has a direct effect on the performance of the institution.

Nair (2010) asserts that there must be a legal arrangement between the borrower and the micro finance provider. The legal arrangement consists of a loan agreement specifying the amount of principal, the interest rate, the repayment period and instatements, and the transactions costs. The author lamented that officers from MFIs were only concerned with finalizing the loan application process with little consideration to the borrower's ability to repay the loan.

Although effective credit management affects performance of MFIs, Angote (2014) had a contrary opinion. He argued that prior conditions that must be fulfilled by lenders before obtaining credit were creating unnecessary barriers that were hindering borrower especially small-scale traders from obtaining credit from MFIs. Given that poor people targets the people that are in the base of the pyramid, Angote (2014) recommended that MFIs should not impose stringent conditions which were unlikely to be fulfilled by borrowers thereby hindering access to financial services. Similar observations were made by Matteo et al., 2016 who argued that the main reason why microcredit was underutilised is because of the lending procedures that were too bureaucratic presenting a huge obstacle to the growth of the sector.

On how the prior conditions that MFIs consider before granting loans to its customers compare with other financial service providers (FSP) such as commercial banks, Matteo et al., (2016) noted that there is a huge difference. In most FSP, the borrower is required to have assets such as properties, vehicles, buildings which can be used as collateral in the event the borrower is unable to repay the loan. However, MFIs do not require the borrower to have assets since their clients who are normally poor people lack assets like buildings, vehicles which can be used as collateral. Actually, this requirement has locked out the poor people from accessing credit from FSP and leaves MFIs as their only option. Schicks (2014) had similar observations when she reported that the lack of collateral requirement by MFIs made poor people have access to finance which had traditionally hindered them from accessing financial services from FSPs.

2.5 Hidden agendas of the parties involved (lender/borrower) that demean the operations of the MFIs resulting to their failure

According to Bateman (2010), Mohammed Yunus started Grameen Bank with the main aim of providing financial services to people who have been excluded by the formal financial institutions. This would lead to their eventual escape from poverty. Unfortunately, modern MFIs have deviated from the Grameen Bank model and had resulted in commercialization of MFIs. They are interested in making profits and have avoided the beneficial side of the institutions. Sinclair (2011) observed that the sector is characterized by high levels of greed, unethical profiteering, deceit and mercantilism.

In 2007, Banco Compartamos microfinance that operated in Mexico whose clients were poor female charged interest rates of about 130%. This exposed the high levels of greed and inefficiency in an institution believed to be helping the poor. Robinson (2010) reported that there were no significant reduction of poverty among their clients but instead were enriching the directors and managers of the institutions,

Sarpong (2015) asserted that the greatest challenge affecting MFIs in the whole world, and specifically in Ghana was because they had shifted their main objectives. Although the primary objective of MFIS was to alleviate poverty among poor people, unfortunately most MFIs being formed were out to make profit. Managers and operators of these MFIs had greedily diverted their operations in a bid to make high returns. Such hidden agendas were to blame for the increased collapse and failure of MFIs in the region. This diversion of objectives could be due to laxity on the part of the government to supervise the operations of MFIs so that they do not exploit the very same people they purport to be helping. Another case in point is in Andra Pradesh, India where motivated to grow fast and make huge profits, MFIs forced loans to their poor members without weighing their repayment ability (Dutta and Das, 2014). This forced the borrowers to do multiple borrowing and when they defaulted, MFIs resulted in using unethical tactics that led some poor people to commit suicide.

Okoye and Siwale (2017) reported that a once successful MFI in Zambia had collapsed because the Chief Executive Officer had interfered with the borrower assessment procedures. The CEO would favour borrowers who were his relatives, tribesmen or political affiliates. This resulted to its collapse as huge chunks of loan were disbursed carelessly and follow-up was next to impossible therefore leading to non-repayment. Also, Calvo and Morales (2016) observed that recent success of MFIs have made the sector enviable to many to the point of some unscrupulous people founding MFIs whose activities were far from helping the poor rise up the pyramid ladder, but were out to reap a fortune from the resources of innocent hard working depositors.

According to Gonzalez (2010), MFIs are becomingly interested in rapid growth which results in increased financial returns and this have overtaken its social mission. Desperate for growth, MFIs have resulted in offering credit to borrowers without first informing them the underlying conditions. In addition, they have fixed repayment schedules and do not allow for rescheduling even for honest clients. Specifically, Dutta and Das (2014) reported that about 70% of micro credit lenders were not aware of the rules governing loan contract as they were not communicated in written form. They ignorantly consented to the agreement without having a clear understanding of the implications in the event either of the party breached the contract.

Although MFIs have been criticized because of shifting their main objective of alleviating poverty and turning to profit making organizations, Nwachukwu (2014) explained that microfinance operations are considered a costly venture in that it involves extending small loans to a lot of people thereby increasing the transactions costs. Therefore, for microfinance to be financially stable, they require to make huge profits. Also, Murkherjee (2014) argued that for MFIs to be financially self-sufficient and to reach many people who are in need of credit their interest rates should be higher than the market price.

Schicks (2014) argues that the blame does not only lie with the MFIs but borrowers were also to be blamed for failure and subsequent collapse of MFIs. This is because two main parties are involved in any credit decision: lender and borrower. She argued that both parties have an obligation to make responsible choices so that the credit agreement does not fail and ultimately lead to the failure of the institution. According to Schicks (2014), the reason why MFI clients are to blame is because most of them are normally poor people who are mainly illiterate and find it challenging to make sound judgment. This can be extremely difficult especially when presented with lucrative credit from MFIs. This leads to unhealthy borrowing and hence over-indebtedness. Furthermore, a client might find it difficult to resist the temptation to take a loan because of pressure from the society.

In their study carried out in Cambodia, Bylander et al., (2018) found out that borrowers were also to blame for failure of MFIs because of giving false information. For instance, a client would lie that the credit they were taking was meant for investment purposes but would end up using it in non-investment purposes such as buying basic goods or paying utility. Since there would be no returns, the borrower would take another loan from a different MFI to offset the previous one. This would lead to over-indebtedness and increase the risk of non-repayment. Similar sentiments were raised by Uddin et al., (2018) who reported that borrowers were also to blame because some clients were giving false information in a bid to get credit from the institutions. For instance, a client may fail to disclose whether they have another loan with a different MFI and this can result in over-indebtedness.

2.6 Summary

This chapter has presented previous studies that have examined MFIs in various countries and the possible reasons that lead to their failure. Specifically, the review has included studies that have examined issues such as the MFI regulations in various countries. It has examined studies that explored the extent of compliance among various MFIs in different countries. It further has looked into the various factors that MFIs consider prior to granting loans and how they affect the institutions. The review has also looked into the hidden agendas such as profit motive of the lenders and how they have affected the sustainability MFIs.

3 RESEARCH METHODOLOGY

3.1 Introduction

This chapter described how the research methodology that was undertaken by study. It starts by describing the research philosophy, research approach and research strategy adopted by the researcher for this study. The chapter also discusses the sampling strategy, the research instrument as well as data collection procedures and data analysis techniques employed in this research. The chapter ends with an explanation on how ethics were considered in this study. Figure 7 below shows the research process and the research aspects discussed in this study.

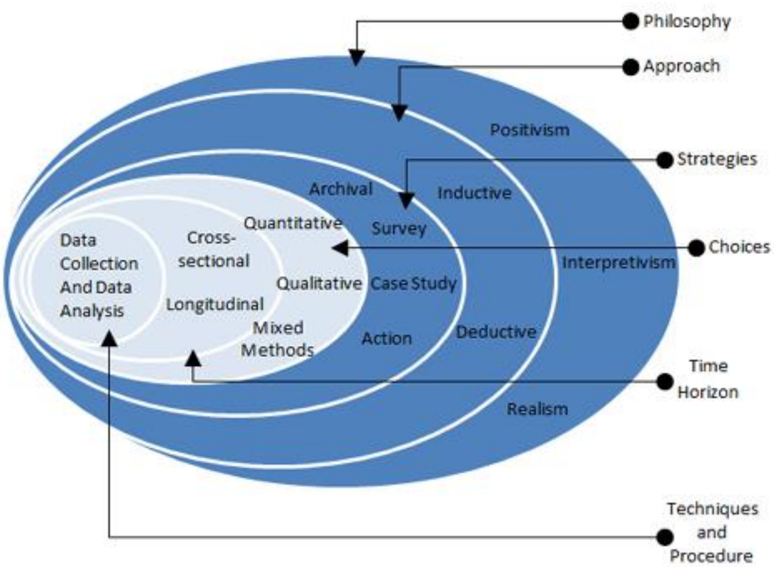

Figure 7: Research onion

Source: Burns and Grove (2003)

3.2 Research philosophy

This subsection discusses the research philosophy used in this study. Research philosophy is important as it assists in identifying the methods, strategies and tools that the researcher will apply during the study.

According to Cohen, Manion and Morrison (2010), there are two major research philosophies that direct the research methods: they are positivists and the interpretivist philosophies. According to positivist philosophy, the research investigations should be specific and free from researcher's bias (Kabaoub, 2008). The philosophy asserts that the methods of data collection should be verifiable and measurable. According to positivist philosophy, it is only through scientific knowledge that the truth about the reality can be ascertained. This philosophy asserts that real events involve empirical observations explained using logical analysis.

Interpretivism philosophy recognizes reality cannot be generalized but rather the phenomena being investigated can be perceived differently depending on the researcher and the participants involved especially during interpretation. To investigate a phenomenon, interpretism philosophy asserts that it is also important to investigate the reasons behind the behaviours and the visible reactions emanating from the phenomenon being investigated (Crowther and Lancaster, 2012). This philosophy has however received criticised from Cohen, Manion and Morrison (2010) who argued that the philosophy is not free from bias emanating from the researcher and research participants especially during interpretation of the findings.

The aim of this study is to determine the factors behind the collapse of MFIs in the first year of operation and identify ways to solve them. The study adopted Interpretivism philosophy as it would aid in obtaining an in depth understanding into the behaviours of the respondents and therefore be able to realize the aim of this study.

3.3 Research approach

There are two main research philosophies that can be applied in an empirical investigation: deductive and inductive research approach. Deductive approach moves from general to specific. Using this approach, the research should move from the general context to the individualized context. The research should start by investigating the already known facts and then contextualize those facts in such a way that they fit a specific context. Deductive approach is mainly applied when testing the existing theories and determining whether those theories can be applied in a specific context. Contrastingly, inductive approach moves from specific to general. The approach involves first observing the phenomenon in an exact context and then generalizing the findings. It involves carrying out an investigation in a specific context and then generalising the findings. Collis and Hussey (2009) observed that inductive approach was the most suitable approach to use in a study where there were limited theories to explain the phenomenon being investigated.

Inductive approach was adopted by this study as it involved investigating the factors behind MFIs collapse in the first year of operation. Using the approach, the findings of this study can be generalized into other MFIs in developing economies since they have closely related challenges.

3.4 Research strategy

Research strategy refers to the stance that the researcher adopts while investigating a certain phenomenon. There are three main categories of research strategy: exploratory, descriptive and explanatory. Exploratory research involves studying a new phenomenon in a broad manner. It is especially preferred when investigating a broad phenomenon. Darabi, Macaskill and Reidy posits that exploratory strategy offers an in depth understanding of a phenomenon through seeking new insights and assessing the phenomenon using a different perspective. It is preferred when a researcher is interested in clarifying concepts, gaining insight, gathering explanation and forming hypotheses. Descriptive strategy is used when a certain phenomenon being investigated requires descriptions, clarifications and explanations of its inner characteristics and relationships. According to Burns and Grove (2003) descriptive strategy portrays an accurate profile of the phenomenon being investigated. Descriptive strategy defines the research aspects prior to the beginning of the research with an aim of collecting accurate information that describes the state of the phenomena under investigation. Explanatory strategy focuses on the cause-effects relationships. The main concern is how a change in one variable affects another variable. According to Burns and Bush (2006), explanatory strategy seeks to understand, explain, control and predict relationships between variables. Explanatory variables go beyond describing a phenomenon and attempts to explain the reasons behind the phenomenon.

This research adopted a descriptive strategy and it was useful in identifying the factors leading to closure of MFIs in Ghana in their first year of operation. Descriptive strategy helped identify the characteristics of the MFIs and obtain information on the factors that led to the failure of the MFIs. Descriptive research helped in portraying an accurate profile of the MFIs in Ghana and the actual issues and practices which made the MFIs to fail.

3.5 Research method

Two research methods are used in research investigation: qualitative research method and quantitative research method (Punch, 2013). The quantitative research method is a research method that focuses on collection of measurable, quantifiable and verifiable data. According to Crowther and Lancaster (2012), quantitative research is an appropriate method in scientific investigations as they require verifiability and accuracy of the data collected. On the other hand, qualitative research method focuses on the collection of data that is not quantifiable such as perceptions, attitudes, emotions concerning a phenomenon under investigation (Pickard, 2007). The objective of qualitative research is to explore and understand the reasons behind a particular outcome or behaviour.

The qualitative method can either employ structured interview, semi-structured interview or non-structured interview. When using the structured interview, strict guidelines are followed and the interviewee is expected to answer the questions either affirmatively or non-affirmatively. The main disadvantage of structured interviews is that they limit the amount of information collected and can at times be inadequate for the study. According to Punch (2013), semi-structured interview is a guided interview where the interviewee answers to questions previously selected by the researcher and may make explanations. Unstructured interviews allow the interviewee to give as much details as possible about the phenomena being investigated. However, the main disadvantage of unstructured interview is that the researcher may end up collecting a lot of irrelevant data which is not related to the phenomenon being investigated. Denscombe (2009) observed that unstructured interviews present difficulties during the analysis of data as a result of the high volumes of data collected.

The following study employs a qualitative method as the aim is to identify the attitudes, perceptions and their emotions related to the collapse of MFIs in addition to identifying ways of minimizing the challenges. A semi-structured interview is used because it helps in guiding the interview and ensures that the data collected is relevant to the research objectives and research questions of the study.

3.6 Data collection method and sampling

The two main methods used in data collection are primary data and secondary data collection method. In primary data collection, the researcher obtains specific information directly from the source in its original state. Various methods are applied such as observation, questionnaires and interviews. Collecting data using this method has the advantage of obtaining relevant and original data that is not biased thereby increasing its reliability. It is preferred when the sources of the information can be accessed easily by the researcher. In secondary data collection, the researcher obtains data that has been collected in the past by an entity that is not related to the present study. Secondary data is either available in print (written) or electronic form. A variety of secondary data sources include books, journals, periodicals and annual reports, internet websites and databases. Creswell (2013) reported that secondary data saves on time and money and is therefore preferred in situations where there are resource constraints.

The following study employs primary method of data collection due to the advantage of obtaining original data. Primary data is collected from administrators of MFIs (employees and directors), clients of MFIs and field officers of BOG mandated to regulate and supervise the operations of MFIs. I sought permission from the interviewees before the interview began and the research objectives are explained. Upon being granted permission, an appropriate time was scheduled for the interview via skype. The interviewees are informed that the interview will be recorded and they are free to avoid any question they felt uncomfortable with.

Saunders, Lewis and Thornhil (2009) define sampling as the method employed by the researcher selecting the research participants from a big population of interest. Convenience sampling was employed in this study because it entails selecting participants depending on their availability and willingness to participate in the study. Further, convenience sampling proved to be the most preferred method due to time constraints. A sample size of nine participants was used in this study comprising of three administrators (employees and directors), three clients and three field officers of BOG.

3.7 Data analysis

After data is collected, the next step is data analysis. Content analysis is employed since the data collected was qualitative in nature. Crowther and Lancaster (2012) posit that content analysis is the most appropriate data analysis method for interviews. The created audio files are first transcribed into text and grouped into thematic areas being investigated guided by the research objectives. Summative content analysis is used in analysing the data where repetition and patterns of words used by the participants are identified. Positive descriptions such as improved, better, happy indicated that the variables are perceived positively while negative words such as worse, unhappy, bad are indicating a negative perception by the participants.

3.8 Research ethics

This research endeavours to adhere to the principles of ethical research. The principle of the privacy and anonymity of the participants is upheld throughout the research process. Participants' identity remains anonymous as requested by the participants. I did not record personal names and any information that could identify the participants. Permission was sought from the participants before the interview started.

3.9 Summary

This chapter has discussed the research methodology used in this study. Constructivism research philosophy and a descriptive strategy have been adopted. Convenience sampling was used to select participants of this study while semi-structured interview method was used to collect primary data. The data collected is then analysed using content analysis. The chapter ends with a subsection on the ethical principles adhered to throughout the research process.

4 RESULTS AND FINDINGS

4.1 Introduction

The following chapter presents the findings of the study. It starts with giving the findings of MFIs regulations in Ghana followed by the findings of the extent to which MFIs have complied with the Bank of Ghana legislations. Then, the chapter gives the findings on the prior conditions that MFIs must consider before granting loans and compares with the prior conditions that other finance service providers (FSP) must consider before granting loans to their clients. The chapter ends by outlining the findings on hidden agendas of the parties involved (lender/borrower) behind their involvement in micro finance operations that demean the operations of the MFIs resulting to their failure.

4.2 MFIs regulations in Ghana

The main aim of the study is to determine the factors behind MFIs collapse in the first year of operation and suggest ways to overcome them. In order to achieve this, four research objectives were formulated. The first objective is to determine MFI regulations in Ghana. A total of nine participants were involved in this study comprising of three administrators (employees and directors), three clients and three field officers of BOG. Interviewees were coded so as to maintain their anonymity. The first interviewee is coded Interviewee 1 and progressed like that up to the last interviewee who was coded interviewee 9. A semi-structured interview was used because it helped the researcher guide the interview. Although, I would have wanted to interview administrators (employees and directors) of MFIs that had collapsed, this was not be possible. This was because they did not want to be known for they feared disappointed clients who lost their savings after the failure and subsequent closure of the MFIs would vent their bitterness on them. As a result, only current administrators (employees and directors) of MFIs that were in operation were interviewed. In order to achieve the first objective, three questions were formulated and these questions can be found in the appendix 1.

The first question that participants were asked is whether they thought it was important to have regulations governing the operations of MFIs in Ghana. Interviewee 5 responded that there was a need to have a regulatory and supervisory framework whose mandate was to regulate and supervise the operations of MFIs thereby protecting exploitation of the general public.

Interviewee 2 felt that it was necessary to have MFIs regulations as they would help in creating a conducive environment that would promote access to financial services thereby leading to a balanced growth of the micro finance sector. Interviewee 5 agreed that MFIs required regulations so as to ensure there is financial stability in the sector and this would result in clients having confidence and faith in the institutions. Interviewee 1 reported that having regulations controlling microfinance operations would ensure that risks associated with the operations of the institutions are controlled and therefore promote transparency. According to interviewee 4, regulations would ensure that unnecessary barriers and conditions are eliminated and thus ensure that MFIs operated in a transparent manner. Interviewee 6 reported that there was need to have MFI regulations because there was realization of the potential of microfinance as a business venture, and therefore some unscrupulous individuals were entering the sector with the sole aim of making profits and not helping the poor. Presence of MFI regulations would ensure that such individuals are blocked from carrying out micro finance operations. Although regulations were important, interviewee 3 lamented that there were some improper and ineffective regulations that were hindering the growth of the sector. The interviewee cited the recent regulation by the BOG of increasing the minimum paid-up capital by more than five times was detrimental to the progress of MFIs. This is because very few institutions would afford GH¢300,000.00 (equivalent to US$150,000). However, gauging from the responses of majority of the participants it was concluded that there was need to have MFIs regulations. Figure 8 below shows a graphical representation of the responses on whether the MFI regulations were important.

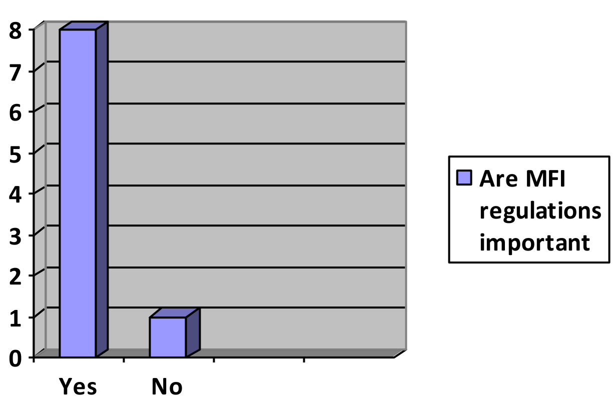

Figure 8: Are MFI regulations important

The second question that participants were asked is whether they were aware of any MFIs regulations in Ghana. The participants were divided in their response to this question. Although, the administrators (employees and directors) of MFIs and field officers of BoG were aware of MFIs regulations, the MFI clients were not aware. The lack of awareness highlighted the need to have awareness programmes that would help the public in understanding the regulations and therefore be informed with regards to operations of MFIs. Once they are informed, they stand a better chance to know when they are rights are being infringed on. Judging from the responses of the majority of the participants, it can be reported that they were aware of the regulations of MFIs.

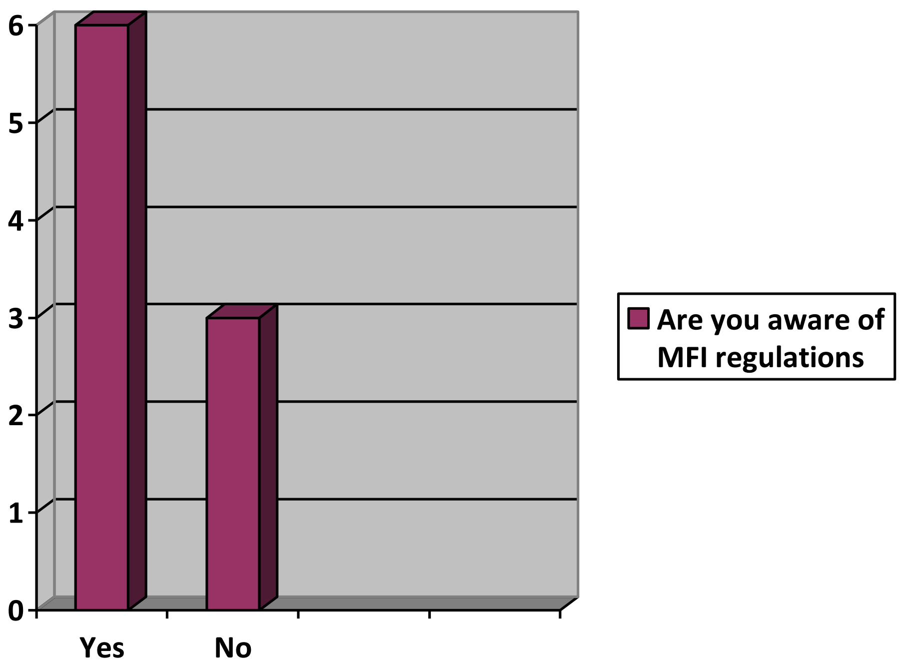

Figure 9: Are you aware of MFI regulations

The third question that participants were asked is which body was mandated to regulate and supervise MFIs in Ghana. This was a follow-up question for those who answered affirmatively in the second question. Therefore, only the administrators (employees and directors) of MFIs and field officers of BOG were responding to this question. They all responded that Bank of Ghana (BOG) was responsible for regulating and supervising the operations of MFIs. Interviewee 8 responded that the Bank of Ghana is mandated with provision of the regulatory and supervisory framework and added that they usually get support from the Other Financial Institutions Supervision Department (OFISD).

4.3 Extent of MFIs compliance with Bank of Ghana regulations

The second objective of this study is to determine the extent of MFIs compliance with the BOG regulations. Two questions were formulated in order to achieve this objective. The first question was whether MFIs had complied with bank of Ghana regulations. The following question elicited mixed reactions from the interviewees. None of the MFI clients responded to this question as they were not were aware of the BOG regulations. Interviewee 1 and 3 reported that MFIs had complied with the BOG regulation. However, Interviewee 2 responded that majority of MFIs had not fully complied with the regulations. Similar observations were reported by Interviewee 7, who said that investigations into the MFIs that had collapsed revealed that they had not fully complied with the BOG regulations. Laxity on the part of officers was blamed for non-compliance with the regulations. Interviewee 9 reported that there were some MFIs that operated without licenses. The interviewee further explained that some MFIs administrators had observed a weakness with the regulatory body. There were many MFIs especially in rural areas and the officers from BOG were overwhelmed with the regulatory and supervisory work and would stay for a long time without visiting the regions. Upon identifying this weakness, some MFIs would operate illegally as chances of their activities being exposed were slim. Another case of non-compliance was in relation to starting new branches. Interviewee 8 reported that a certain microfinance had opened new branches so fast and because they did not have enough funds they ended up eating into depositors' savings thereby violating regulations of BOG. Judging from the majority of the responses, it can be deduced that MFIs had not fully complied with the BOG regulations. This could offer a probable reason why there were many MFIs that were collapsing in the region.

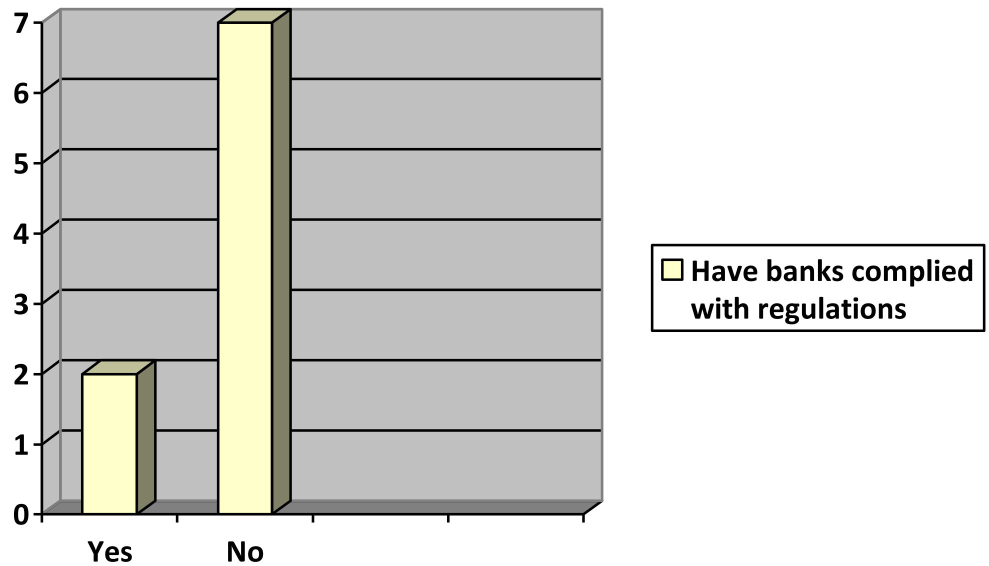

Figure 10: Have banks complied with the regulations

For those participants who responded affirmatively in the first question, there were asked the second question. The second question asked the extent to which MFIs had complied with the Bank of Ghana regulations. Interviewee 1 reported that MFIs had complied with the regulations to a great extent while Interviewee 3 reported that they had complied with the regulations to a moderate extent. Areas that they had fully compiled were registration, maintenance of accounts and depositor's savings. The rule regarding minimum paid-up capital was highlighted as the area that they had not fully complied with. It could therefore be concluded that legislation on minimum paid-up capital was acting as a barrier to the growth and success of the sector.

4.4 Prior conditions that MFIs must consider before granting loans to potential customers and how they compare with other financial service providers (FSP)

The third objective of this study is to determine the prior conditions that MFIs must consider before granting loans and how they compare with other financial service providers (FSPs). In order to achieve this objective, three questions were asked. These questions were restricted to MFIs administrators and clients only.

The first question was whether there were any prior conditions that MFIs consider before granting loans to potential clients. All the clients agreed that there were prior conditions that

MFIs must fulfil before granting loan to potential customers. Each of the administrators explained the loan application process that they followed in their respective MFIs. One common feature was that there must be a legal contract to bind the two parties involved in the credit process: the lender and the borrower. The contract specified the amount of principal, the interest rate, the repayment model and the amount of each repayment instalments and the transactions costs. Officers from the MFIs were mandated with the duty of informing a potential client of particulars of the legal contract. Upon the consent of the client, then they would go ahead and process the loan. Interviewee 5 reported that in some instances the MFI officer would visit the potential client's home or business to investigate whether s/he would be in a position to repay the loan. "*Even during the repayment period, some officers would make impromptu visits to see how one was fairing on with the business".* Interviewee 4 reported that one of the prior conditions that must be met was belonging to a group and have made savings for some time from which they would get credit as a multiple of their savings. Their savings would be multiplied between three to five times. Generally, MFIs do not give credit to individuals but to group as the members co-guarantee each other. Further, group pressure is used to ensure there are no defaulters. From the above responses, it can be deduced that there are prior conditions that MFIs consider before granting loans to potential customers. Figure 11 below shows whether there were prior conditions that were to be met before granting loans to MFI customers.

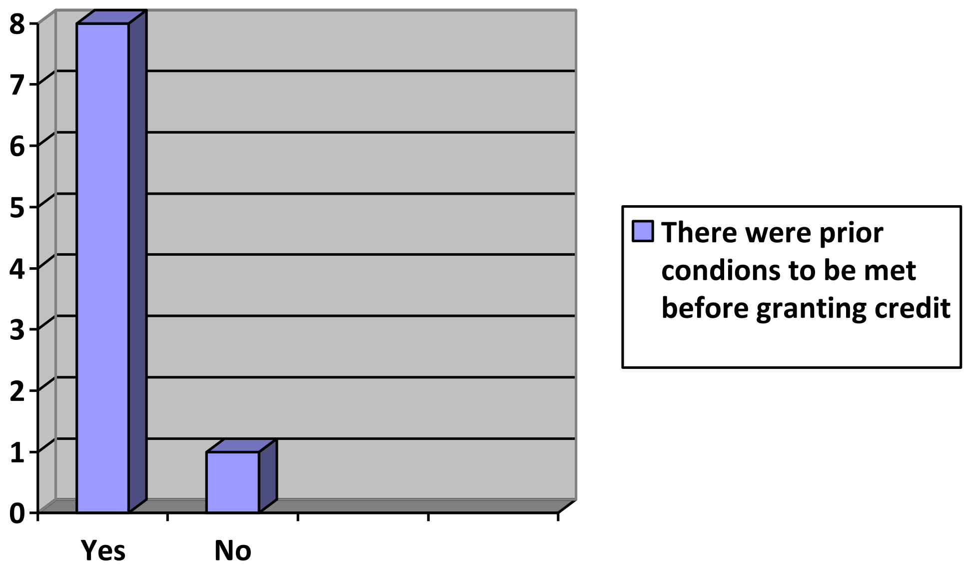

Figure 11: Were there prior conditions to be met by customers before MFI granting credit

The second question was whether there were any prior conditions that financial service providers (FSP) consider before granting loans to potential clients. Interviewee 6 responded that for FSP to give a loan to potential client, some conditions must be fulfilled. One of the conditions highlighted is having an asset such as property, vehicle, building to be used as collateral. They could also consider employees of government agencies in this case their salaries would be used as collateral. A business which was in operation for more than six months and had regular monthly cash flows could also be considered for loan application. Interviewee 5 reported that he had once wanted to take a loan from a certain bank but was locked out because he lacked collateral. Judging from the responses of the participants, it can be deduced that there are prior conditions that FSPs consider before granting loans to potential customers.

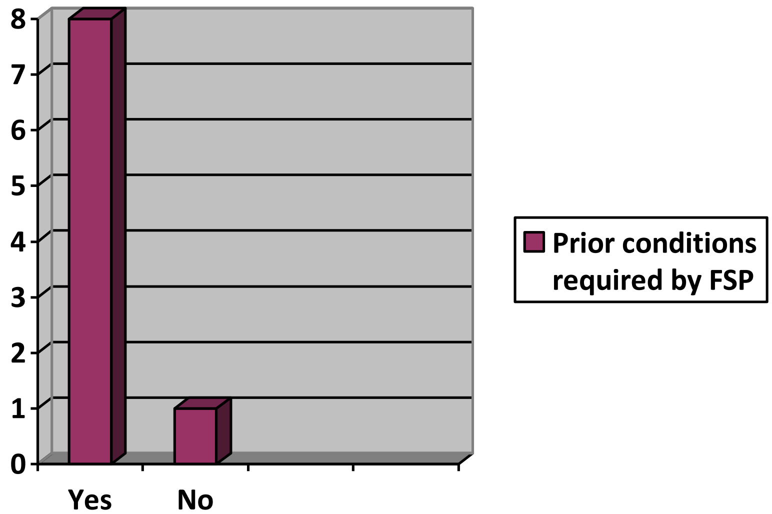

Figure 12: Were there prior conditions required by FSP before granting credit

The third question that participants were asked was whether there are any similarities or differences between the conditions of MFIs and other FSPs. One similarity reported by the participants was the legal aspect of the credit process binding the lender and the borrower. Differences cited by participants included collateral where FSPs required collateral while on the other hand MFIs did not require collateral. Another difference was regarding belonging to a group. Whereas it was mandatory for a potential client to belong to a certain group before accessing loan from MFIs this was not the case with FSPs. One did not have to be a member of any group to qualify for a loan. Therefore, there are differences between MFIs and FSPs prior conditions that must be fulfilled before granting loans to potential customers.

4.5 Hidden agendas of the parties involved (lender/borrower)

The fourth objective of this study was to investigate whether parties involved (lender/borrower) had hidden agendas behind their involvement in micro finance operations. Two questions were asked in order to achieve this objective. The first question was whether there were some MFIs with hidden agendas behind their involvement in micro finance operations. Interviewee 5 reported that there were some institutions that were camouflaging as MFIs but they had other ulterior motives. *"They are not interested with providing financial services to the poor but are* *driven by the urge to make profits from the sector."* The sentiments were echoed by Interviewee 4 who said that *"The high profits charged by some MFIs indicated the underlying motive behind their involvement in the sector. They are only interested in making huge returns."* Interviewee 3 reported that there were hidden agendas in some directors of MFIs who were characterized by high levels of greed by focusing in rapid growth and make huge profits. *"In some instances, the directors would give credit officers unrealistic targets which would often make them to be quick to give loans without following the due process".* Similar sentiments were reported by interviewee 9 who had observed that MFIs were being commercialized with the sole goal of making huge profits. Interviewee 2 reported that some credit officers did not access the repayment ability of the borrower that would often lead to increased default rates. In some instances, credit officers did not determine whether the borrower had another loan in a different MFI. This would lead to over-indebtedness that would eventually result in non-repayment of the loan. From the responses, it can be reported that some MFIs had hidden agendas behind their involvement in micro finance operations. Figure 13 below shows whether there are hidden agendas in MFIs.

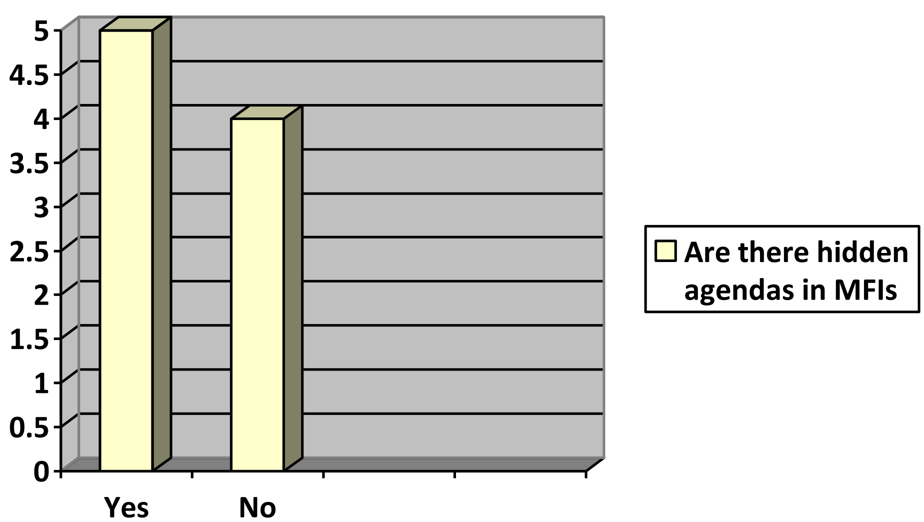

Figure 13: Are there hidden agendas in MFIs

The second question was whether there were some clients with hidden agendas behind their involvement in micro finance operations. Interviewee 3 reported that there were instances where borrowers would give false information in order to be given loan. A case was cited where a borrower had claimed that he was taking the loan to stock his business but used the money to clear hospital bill. Interviewee 2 agreed that there were some MFI clients that had hidden agendas. The interviewee highlighted a case where an MFI client had used ghost members to acquire credit and upon receiving the money, the client moved to another region and probably used the same tactic to obtain another credit. Judging from the above responses, it can be reported that some MFIs clients had hidden agendas behind their involvement in micro finance operations.

4.6 Summary

The chapter has presented the findings of the study. It started with giving the findings of MFIs regulations in Ghana followed by the findings of the extent to which MFIs have complied with the Bank of Ghana legislations. Then, the chapter outlined the findings on the prior conditions that MFIs must consider before granting loans and compares with the prior conditions that other finance service providers (FSP) must consider before granting loans to their clients. The chapter ends with outlining the findings on hidden agendas of the parties involved (lender/borrower) behind their involvement in micro finance operations that demean the operations of the MFIs resulting to their failure.

5 DISCUSSION OF THE FINDINGS

5.1 MFIs regulations in Ghana

The main objective of the study was to determine the factors behind MFIs collapse in the first year of operation and suggest ways to overcome them. In order to achieve this, four research objectives was formulated. The first objective was to determine MFI regulations in Ghana. The study found out that there was need to have MFIs regulations in a bid to protect the general public from exploitation by unscrupulous individuals with ulterior motives. In addition, regulations ensured that MFIs operated in a sound and transparent manner. The participants agreed that it was important to have regulations governing the operations of MFIs in Ghana. Another reason fronted was so as to create a conducive environment where MFIs would operate in a transparent manner. Further, regulations in the sector would promote access to financial services thereby leading to a balanced growth. Also, the study found out that regulations would result in financial stability of the sector thereby promoting faith and confidence in the institutions. Risks associated with the operations of the institutions are controlled by regulations. Similar findings were reported by Boateng and Acheampong (2016) who posited that regulations were meant to protect depositors' funds in addition to ensuring there is transparency in the sector.

Although the findings of the study pointed the importance of regulating the operations of MFIs, there were concerns raised regarding improper and ineffective regulations that were hindering the growth of the sector. Similar sentiments were reported by Woller and Woodworth (2011) and Mohammed (2010) who posited that improper regulations and ineffective regulatory and trade policies were to be blamed for the failure and subsequent collapse of MFIs.

5.2 Extent of MFIs compliance with Bank of Ghana regulations

The second objective of this study was to determine the extent of MFIs compliance with the BOG regulations. The study found out that MFIs had not fully complied with the BOG regulations with cases of some MFIs operating without licenses. This could offer a probable reason why many MFIs were collapsing in the region. An area that was highlighted where none of the MFIs involved in this study had complied was with regards to the requirement of a minimum paid-up capital which was thought to be beyond the ability of majority of the MFIs thereby acting as a barrier to the growth and success of the sector. These findings were not peculiar to Ghana as similar findings were reported by Aliija and Mohangi (2015), and Boateng, Boateng and Bampoe (2015) who reported that failure of MFIs stemmed out from lack of compliance with regulations. However, the findings of this study differed with Rahman, Khanam and Nghiem (2013) who reported different findings a high to moderate level of compliance with regulations. The findings are different because the authors collected data from MFI themselves and they possibly feared their licenses being cancelled because of non-compliance.

5.3 Prior conditions that MFIs must consider before granting loans to potential customers and how they compare with other financial service providers (FSP)

The third objective of this study was to determine the prior conditions that MFIs must consider before granting loans and how do they compare with other financial service providers (FSP). Findings from the study indicated that there were prior conditions that MFIs considered before granting loan to potential clients which included belonging to a group and have made savings for some months. On the part of FSPs, one condition that must be met was collateral where assets such as property, vehicle or building could be used as a guarantee for the loan. The study found out that there were similarities in the legal aspect of the credit process while differences included collateral in FSPs and not in MFIs and group condition in MFIs and not FSPs. The study also found out that despite the presence of a legal process that must be followed before advancing credit to potential client, some credit officers were desperate to hit targets and would end up not following the due process. One cited area is in relation to determining whether the borrower had another loan in a different MFI. Similar findings were reported by Matteo (2016) and Nair (2010) who reported that there were differences with respect to prior conditions that MFIs and FSPs must consider before granting loans to potential clients.

5.4 Hidden agendas of the parties involved (lender/borrower)

The fourth objective of this study was to investigate whether parties involved (lender/borrower) had hidden agendas behind their involvement in micro finance operations. The study found out that some MFIs had hidden agendas such as greedy, being profit-oriented vis-a-vis helping the poor and interest in rapid growth. The study also noted that hidden agendas had led to commercialization of MFIs. Similar findings were reported by Bateman (2010), Sarpong (2015), Sinclair (2011), Bateman (2010), Okoye and Siwale (2017), and Calvo and Morales (2016).

The study also found out that some borrowers were giving false information so as to obtain credit while others had resulted in multiple borrowing which would lead to over-indebtedness potentially lead to collapse of MFIs due to non-repayment. Other authors who have reported similar findings include Schicks (2014) and Bylander et al., (2018)

6 CONCLUSION AND RECOMMENDATIONS

The following chapter will outline the summary of the findings of the study followed by recommendations based on the research findings and ends up with a highlight of the limitations of the study.

6.1 Conclusion of the study

The main objective of this study was to determine the factors behind MFIs collapse in the first year of operation and suggest ways to overcome them, the study has concluded that there is need to regulate and supervise the operations of MFIs so as to protect the public from unscrupulous individuals with ulterior motives. Also, regulations would ensure there is financial stability of the sector thereby promoting faith and confidence in the institutions given that MFIs is a risky venture, regulations would mitigate the associated risks. With regards to compliance with MFIs regulations, the study found out that some MFIs in Ghana are not licensed and those licensed had not fully complied with the regulations. Specifically, non-compliance with the minimum paid-up capital was cited as one of the areas that none of the MFIs had complied with.

With regards to prior conditions that must be met by MFIs and FSPs before granting loans to potential customers, it was found out that both institutions had conditions that must be met before the loan is granted. Similarity was observed in relation to the legal aspect while there were differences with respect to collateral and group condition. On whether there were hidden motives behind involvement in MFIs, lenders were accused of being greedy, profit-oriented as opposed to helping the poor and interest in rapid growth using depositors' savings. The borrowers were also accused of having hidden motives characterised by giving false information coupled with multiple borrowing.

6.2 Recommendations of the study

The following study recommends that BOG should ensure that all the MFIs operating in the region are registered and are complying fully with the regulations. This would ensure that the public is protected from unscrupulous individuals with ulterior motives. Regulations would also ensure there is financial stability of the sector thereby promoting faith and confidence in the institutions. This would ultimately minimize the cases of collapsed or failed MFIs and thereby promote sustainability of the sector. Given the many complains with regards to the legislation on the minimum paid-up capital, the study recommends that the BOG should consider revising the amount downwards so that it does not present barriers to the success of MFI operations.

To ensure there are no greedy and profit-oriented individuals involving themselves with MFIs operations, the government through the BOG department should make thorough supervision and regulations that would leave only institutions with the interest of providing financial services to the poor as opposed to making huge profits from hard earned savings of the poor in the society.

Another recommendation suggested from the findings of this study has to do with the credit process where credit officers from the MFIs should ensure that the credit process is duly followed before granting loans to potential clients which will prevent multiple borrowing that results in non-repayment. Subsequently, this will minimize the cases of failure or collapse of MFIs.

6.3 Limitations of the study

Given that this is an academic work which must be submitted within a specified timeline, the study was limited within a specified time frame. Also, the study was limited as a result of financial constraints which hindered covering many respondents. Only three administrators (employees and directors), three clients and three field officers of BOG were involved in the study. The limitation on time made me to use interviewee method of data collection although there are other methods of collecting data such as questionnaires and focused group discussions (FGDs). Whereas there are other factors that lead to the collapse of MFIs, this study concentrated on regulations, credit management and hidden agendas.

6.4 Recommendations for further study

Based on the findings of this study, the research recommends that a study to be done to investigate collapse of MFIs in Ghana using a larger number of respondents and determine whether there could be other causes not captured in this study.

Another study could be done to investigate collapse of MFIs in Ghana and use other methods of collecting data such as questionnaires and focused group discussions (FGDs) since they also have their advantages.

Since this study limited the causes of MFIs failure to regulations, credit management and hidden agendas, another study could be done that would investigate other causes such as interests of donors, and the failure of the government to provide funds to poor people.

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APPENDIX 1-INTERVIEW PROTOCOL

Introduction

This interview concerns the Micro Finance Institutions in Ghana and it seeks to identify the MFI regulations in Ghana as well as the challenges encountered by MFIs and the hidden agendas of the MFIs. Participation in this research is voluntary and no incentives are provided for participation. Honest responses to the questions asked are highly appreciated since there are no right or wrong answers to the interview questions. Your personal information and details are not required and will not be provided to third parties in order to keep your identity private and anonymous. Thank you again for agreeing to participate in the study.

MFIs regulations in Ghana

1. Do you think it is important to have MFIs regulations in Ghana? Give reasons.

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2. Are you aware of any MFIs regulations in Ghana?

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3. If so, which body is mandated to regulate and supervise MFIs in Ghana

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Extent of MFIs compliance with Bank of Ghana regulations

4. Do you think MFIs have complied with Bank of Ghana regulations?

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5. If so, to what extent have the MFIs complied with Bank of Ghana regulations?

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Prior conditions that MFIs must consider before granting loans to potential customers and how do they compare with other financial service providers (FSP) (To be answered by MFIs administrators and clients)

6. Are there any prior conditions that MFIs consider granting loans to its customers? If so, which ones are they?

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7. Are they any prior conditions that other financial service providers (FSPs) such as commercial banks consider granting loans to potential customers? If so, which ones are they?

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8. Are there any similarities or differences between the conditions of MFIs and other FSPs?

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Hidden agendas of the parties involved (lender/borrower)

9. Do you think MFIs have hidden agendas behind their involvement in micro finance operations? If so, which ones are they?

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10. Do you think clients of MFIs have hidden agendas that demean the operations of the MFIs resulting to their failure? If so, which one

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