AN INVESTIGATION INTO THE OPERATIONS OF MICROFINANCE INSTITUTIONS WITHIN THE KUMASI METROPOLIS

BY:

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DECLARATION

I hereby declare that this submission is my own work towards the Executive Masters in Business Administration and that, to the best of my knowledge, it contains no material previously published by another person, nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Microfinance services in the financial sector have spread all over the nation to serve the needs of the poor and the community as a whole. The industry also emerged as an innovation in lending to the rural poor in Africa. But lack of due diligence and effective management practices has led to the collapse of most microfinance institutions within the Kumasi metropolis. Hence, the aim of the study was to explore operations of microfinance institutions within the Kumasi metropolis. The specific objectives were to identify the challenges effecting the effective operational management of microfinance institutions within the Kumasi metropolis, to evaluate factors which attributed to the collapse of some microfinance institutions within the Kumasi metropolis and to identify the strategic approaches for effective operational management of microfinance institutions within Kumasi metropolis. Through a thorough literature review questionnaire was developed and administered to ten (10) microfinance institutions involving five (5) operational staffs within each setup. Data generated from the survey were further analysed using descriptive statistics involving percentage, frequency, mean and standard deviation. The following were revealed as the challenges to effective operational management of microfinance institutions, namely: dishonest employees, lack of understanding in the definition and concept of microfinance by the clients, lack of standardize reporting and performance monitoring system for microfinance institutions were the major Moreover, most causes in the collapse of microfinance institutions was as a result of mismanagement, illegal operation with unethical practices and disregard of due diligence. Based on the above finding the following recommendations were deem necessary. Circumspection in recruitment and selection of the right and qualify human personnel, Due diligence by management in the legal operation with ethical practices and control of public rumor in avoiding panic withdrawal. Periodic customer's seminar by management on various services and policy guidance to prospective customer on their business guidance and operations with respective financial institutions.

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DEDICATION

I dedicate my dissertation work to my family and friends. My special feeling of gratitude goes to my brother Victor Tandoh who has been very supportive and motivational to ensuring the completion of this work

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Microfinance can be defined as all kinds of financial services (savings, credits, funds transfer) given to low-income households and enterprises in urban and rural areas (Robinson, 2002). The services provided by these financial institutions can be categorized into financial services, non-financial services and business development. Financial services may include loans, deposits and leasing services. Non-financial services may also include literacy classes, nutrition and health. These institutions were setup as a result of frequent failure of rural financial markets in providing services like subsidized production credit. There is a minimum of ten thousand (10,000) microfinance institutions across the world (Armendariz et al., 2005).

Microfinance Institutions (MFIs) provide many services like payments and savings facilities, insurance and loans to their clients. In the process of providing these services, they encounter many challenges which may include the influence that social and political environment has on how they operate and their overall sustainability. The government of Ghana therefore in partnership with other support institutions and development partners engages in promoting the enabling conditions that are meant to promote microfinance as a strategy for wealth creation and poverty reduction (Wiredu, 2008). The multifaceted nature of using microfinance as an instrument for wealth creation requires an integrated effort by all stakeholders (Wiredu, 2008). The concept of microfinance is not new in Ghana as it has been the nature of people of saving and taking small loans from individuals to start a venture (Asiama, 2007).

According to Afrane (2002), microfinance has the power to improve their client's condition but also cause negative influences. Therefore, there is the need to initiate measures to control these negative impacts in their credit programmes. On the other hand, Bank of Ghana is indeed noted for strict adherence to accounting ratios, in view of that, the bank has the activities of all financial institutions in Ghana including the microfinance institutions monitored (Al-Najjar, 2013). However, over the five years the Ghanaian has witnessed the collapse of many microfinance institutions that the public assumed to be highly visible in the financial market. Some of these collapsed institutions included Noble Dream Microfinance, above all financial service and KAD Microfinance (Yeboah, 2010). This was due to the fact that, little did these setups acknowledge due diligence, effective operational management, effective accounting financial practices and its significant impartment for financial decision making irrespective of the size of the institutions. In bid of that, it was deemed necessary to carry out the evaluating the strategic approach in the effective operational management of microfinance institutions, within the Kumasi metropolis.

1.2 Problem Statement

Many microfinance institutions employ the services of fresh graduates and people with little or no knowledge in Finance. This does not help in securing competitive advantage since today's competitive market needs professional competence (Quayeobli, 2006). As such, this has posed a lot of threats to the survival of most micro finance institutions in Kumasi and has driven most of them out of the market. Furthermore, stakeholders in charge of affaires also do not apply the legal framework and the appropriate managerial procedures to ensure a successful operation in business (Quayeobli, 2006). The results of such setbacks in professional competence, has led to seven micro-finance companies in three regions being closed down by the bank of Ghana for failing to meet licensing requirement, and putting in place effective financial management of the setup and as announced by the acting governing of BOG Dr Henry Kofi Wampah in an interview with Graphic Business News (GBN, 2012). The firms were instructed by the bank to give back all the money taken from customers and cease operations (GBN, 2012). These firms included Unity Trust micro-finance in Somanya, Multi-credit microfinance located in Cape-Coast and MFA Microfinance at La. In an interview with Graphic Business News, Dr. Wampah stated that, BOG in 2011 gave the micro-finance firms up to July 2012 to standardize their businesses but up to date most operate without putting in place the due diligent for their effective operations. Therefore, the BOG warned the general public to avoid dealing with micro-finance institutions whose warrant is not boldly displayed in their offices (GBN, 2012).

Many factors affect the sustainability and survival of microfinance institutions and one major factor is institutional characteristics. The main purpose of microfinance firms is providing financial services to low-income, poor and very poor self-employed people (Otero, 1999). Unfortunately, there are a number of reports concerning inefficiencies in microfinance operations across the country (Amanor 2012). For example, the microfinance and small loans center (MASLOC) is having challenges collecting a loan deficit of GHS 43 million in Western region and GHS 60,000 in Dormaa Ahenkro in the Brong Ahafo region alone (Amanor 2012). There are many other constraints in the operations of microfinance institutions which includes poor regulatory environment, inadequate skills and professionalism, inadequate capital etc (Wiredu, 2008). As a result of these interventions various achievements have been made so far in the sub-sector. In bid of that, the following objective was made necessary to ensure Strategic approaches in revamping microfinance institution in Kumasi.

1.3 Objectives

The aim of the study was to explore the operations of Microfinance Institutions within the Kumasi Metropolis

In achieving the aim of the study the following objectives were advanced:

- To identify the roles of microfinance to businesses within the Kumasi metropolis;
- To identify the operational challenges faced by microfinance institutions within the Kumasi metropolis; and
- To analysis key external variables which influence the effective operational management of microfinance institutions within the Kumasi metropolis

1.4 Research Questions

- What is the impact of Micro credit on SMEs performance?
- How sustainable is emergency loans in the microfinance industry?
- What are the effects of non-performing loans in the microfinance industry?

1.5 Significance of Study

Microfinance has become a tool for poverty reduction in many parts of the world as it comprises of the provision of financial services and management of small amounts of money. This type of financing in Kumasi particularly is suitable for micro enterprises that are informational opaque and lack significant amounts of assets that can be pledged as collateral. The existence of these microfinance institutions especially in Kumasi metropolis has really helped small and micro-business to gain start-up capital and to expand their businesses. These institutions also give credit training to their client and to help them manage their businesses.

The current recognition microfinance has achieved as an alternative financial inclusion strategy for the poor and the low-income earner puts the microfinance sector under the watchful eyes of microfinance players and actors, and every facet of the economy, to assess and gauge happenings within the sector (Abor, 2010). Nobel Prize Committee for 2006 identified microfinance as a liberating force and an important instrument in fighting and reducing poverty (Adams, 2010). Many others view microfinance as a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. By reducing vulnerability and increasing earnings and savings, financial services allow poor households to make the transformation from "every-day survival" to "planning for the future. Hence, this study will help in possible growth of microfinance, as it will reveal their challenges thereby identifying strategies that will curb such challenges.

1.6 Research Methodology

This research adopted a methodology which involved the gathering and reviewing the literature relevant to this study. This guided in the identification of previous works undertaken, contributions made, current findings and their effective applications in the Ghana. Also, quantitative approach was chosen for this research because it helps in collecting of data from randomly large sample. Structured questionnaire was used to gather information on the study. Details of the methodology are discussed in chapter three (3) of this study.

1.7 Scope of Study

The study is to investigate the role of microfinance institution within the Kumasi metropolis. The research was limited to only selected Microfinance institutions in Kumasi, the second largest capital of Ghana and could not cover the entire country due to funds and time constraints.

1.8 Limitation of the Study

Every research has its own limitations and this research was not an exception. The possible limitation of the project is attributed to the lack of time and insufficient funds. The study would have been quite broad and representative if it had covered all MFIs nationwide. However, the research was limited to some selected microfinance institution in Kumasi. Supply of information also was a major challenge because respondents from the microfinance institution felt reluctant giving out certain information despite the fact of assuring them of confidentiality. since most of the information required related to business issues, ethical and legal regulations made it quite difficult to access some vital information concerning the company due to uncertainty of the use of the information being gathered. However, the researcher managed to retrieve substantial information from the various stakeholders who availed themselves to be surveyed.

Another limitation of this study was the fact that respondents may have faked response to please the researcher. More often than not, issues relating to organizations are very vital and sensitive to many employees. Respondents were therefore likely to paint a good picture of themselves and their organist ion in which they work to avoid what they consider as embarrassment; instead of providing accurate information about their organizations. This faking of response by the respondents were another treat to the validity of the study. To tackle this hurdle, probing questions were asked and some of the items repeated to cross check the accuracy of the information that the respondents provided.

Another main limitation to the study was the refusal of some selected organization to participate in the study. Great time was spent and letters were given to show that the study was an academic exercise and had nothing to do with any hidden agenda. Respondents were in most cases reluctant to take part in the study.

1.9 Organization of the Study

The study was cautiously planned into five (5) sections: The first sections focused on the background of the study, statement of problem, research questions, research objectives, and significance of the study. The second sections of the research study appraised literature on Microfinance institutions in Kumasi. Both theoretical and empirical issues are reviewed in literature. The third sections formed the methodology of the study, this chapter gave details of how the research was conducted; it included issues such research design, population sample and sampling procedure, data collection and organization procedures. The fourth presented, analysis and discussion of data collected. The Last sections dealt with summary, conclusion and recommendations on the outcome of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review for this study. The review has been divided into several sections. The first part deals with the general introduction, a general perspective of microfinance, including concept and historical. It also looks at challenges, economic impact and finally strategies adopted by microfinance institution.

2.2 Concept of Microfinance

The microfinance industry is geared towards providing small loans to the rural poor. Farmers were the primary concern of micro finance in 1960s and 1970s but the concept changed with time (Von Pischke 1991). Before formal banking systems where introduced in Ghana, those in the rural communities depended much on informal and semi-formal banking (Egyir 2010). In Ghana, the financial liberalization policies of the 1980s coupled with a relaxed regulatory environment for microfinance resulted in tremendous growth and spread of microfinance institutions (Steel and Andah, 2003).

The main aim of microfinance was to provide the poor the capacity to engage themselves in ventures to provide for their families by giving them credit facilities (Ledgerwood, 2006). According to Littlefield et al. (2003), microfinance has a major impact in the elimination of poverty and improving on the standard of living of women. However, the method of operations of micro-finance raises a question mark if poor people are actually their target of operations. Microfinance is at its infant stages but surprisingly shown a tremendous sign of growth which is evident in the number of microfinance companies that have being established in the last four (4) years (Egyir, 2010).

Microfinance companies in Kumasi are experiencing a high withdrawal rate because clients take precautions in other to protect their savings therefore many of these firms are facing liquidity challenges. According to the National Chairman of the Ghana Association of Microfinance Companies (GAMC), excessive branching is a major cause of excessive withdrawals and also the loss of control over operations.

2.3 Historical Perspective of Microfinance Institution

The poor accessing financial assistance from family and friends has being the traditional order of life but since the establishment of microfinance institutions in the past three (3) decades, the demand for traditional financial assistance has reduced significantly. In Germany (1840s and 1850s), the first credit union founded by Raiffeisen and Schulze-Delitzsch were established to provide micro-credit in rural population (Frimpong, 2010. It was specified by the founders that, the reason for the establishment of credit unions was to provide loans for productive purposes, thus to help farmers diversify their income, aid tradesmen in buying tools and general aid anyone who wanted to build a business move to the next step (Frimpong 2010).

German credit union accumulated over 2 million customers with more than half living in rural communities in 1914 (Frimpong 2010)There have being numerous situations of success of microfinance systems in poverty reduction especially in Grameen bank’s microfinance system in Bangladesh since the 1970s. With regards to this positive results, microfinance gained more popularity in the development community- among academics and practitioners. The most popular at that time was led by Muhammad Yunus of Grameen Bank which was initiated in Bangladesh in response to widespred of poverty and social unrest in the 1970s (Armendariz de Aghion and Morduch 2005). According to Bateman (2010), recent microfinance institutions have provided both financial and non-financial aid to the poor thereby gradually reducing poverty. Globally, it was accepted that, expanding the services of microfinance to the poor can aid in achieving the United Nations Millennium Development Goals (MDGs) which involved poverty reduction and promoting gender equality. This led to the microfinance attracting large capital investment that led to phenomenal growth.

2.3.1 The Paradigm Shift of Microfinance Institutions

Hulme and Mosley (1996) after concluding a research on micro-credit however argues that most present-day microfinance schemes are less helpful than they are expected to be. The authors argued that microloans are not a universal remedy for poverty-alleviation and that in some cases the poorest people have been made worse-off. To a very large extend, an increasing number of microfinance institutions, if not all, are now in operation for profit than serving as a means to alleviate poverty (Battilana & Dorado 2010). It had also been established that the poor person operating in SB pay higher costs for credits than businessmen operating in average large business. Researchers had interestingly noted that, though MFIs are committed to poverty alleviation, they also aim at enriching themselves from their profit gained from charging high interest rates

2.3.2 Microfinance Sector in Ghana A Brief Overview

Microfinance has existed in many forms in Ghana since time immemorial (Steel and Andah, 2003). Microfinance has been used in Ghana as a way of mobilizing money informally for economic activities but financially vulnerable in society through the concept of rotatory savings (Susu) (Abayie et al., 2011). As at the year 2006, MFIs in Ghana had 3.5 million clients which was about 15% of the total population as against the 10% commercial bank. The private informal sector employs the largest working population in Ghana. According to the Ghana Credit Union Association statistics, as at 2008 there were 371 registered credit unions with membership at 278,236 of which 138 were workplace based (37per cent), 142 parish based (38 per cent), and 91community based (25 per cent) (Frimpong, 2011). which had mobilized total assets of GHC145.3 million, deposit of GHC121.6 million and granted loans in the sum of GHC87.1 million (Frimpong, 2011). Regardless of that, the rate of poverty still stands, making it challenging to pin-down on a single universally acceptable definition of poverty, because of its multifaceted nature. Some indicators have been identified to allow for the easy measurement of the concept of poverty.

2.3.3 Overview of Microfinance Institution in Kumasi

The MFIs have also played a major role in reducing the high unemployment rate in the economy especially in Ghana. This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These microenterprise lending and credit facility programs had an almost exclusive focus on credit for income generating activities and services targeting very poor income earners. Alongside Government effort to poverty reduction, various non-formal institutions have been established to give financial assistance to productive small and medium scale business with substantial investments. They include Sinapi Aba Trust (SAT) in Kumasi, Noble Dream Microfinance established in 11th November, 2009 and a lot more

2.4 Microfinance Products and Services

The PNDC Law 328 in 1991 was established to allow the setting up of different non-financial institutions, including savings and credit unions (Asiama, 2007). According to Quaye (2011), the policies have led to the emergence of three broad categories of microfinance institutions. These are:

Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;

Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals (Asiama, 2007); and Formal suppliers like Savings and Loan Company.

According to Quaye (2011), microfinance institutions provide four (4) categories of services:

Enterprise Development Services or **Non-financial Service:** This focuses on assistance to micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis (Quaye, 2011). This however may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services;

Social Intermediation: is the process and activities that involves building of human and social capital that is needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation (Quaye, 2011);

Non-financial Services: This concerns itself with welfare of micro entrepreneurs like education, health etc.

Financial Intermediation: Providing financial services like savings, insurance etc.

2.4.1 Microfinance Contribution to Economic Development

Most governments especially in the developing world have either instituted or promoted Microfinance Institutions (MFIs) as a poverty reduction strategy. This Credit Union movement has been identified as a potential means of mobilizing funds for personal, as well as, business development (Frimpong, 2011). Ideally Poverty eradication has been a great challenge, in every economy, both the developed and developing world. There has been the existence of various avenues for addressing the financial needs of citizens and households (Frimpong, 2011). According to Otero (1999) microfinance generates capital with education and training of human capitial. Most Credit Unions categories as microfinance set-up operate largely in the rural areas where the inhabitants are mostly into farming and others into micro or small scale business and cottage industry. People found in this sector of the economy normally have relatively low income (Frimpong, 2011). The Credit Unions in such rural areas help the people to save and/ or through forums and education, inculcate the habit of savings into the inhabitants (Frimpong, 2011).

2.4.2 Microfinance Institutions and Administrative Challenge

Among the challenges of Microfinance Institutions is managerial. Most employers of the institutions do not hire employees with professional backgrounds in microfinance operations or proper managerial skills the microfinance institutions are confronted with administrative challenges which impede the smooth running of the industry. In addition, unlike the formal and the semi-formal institutions, most microfinance institutions do not have credit risk management officers even though most of them given loans to their clients (Kuffour, 2013. Client's funds brought in by the mobile bankers recorded in the ledger cards may also be different from the actual amount in the contributors' passbook or card this mismatch leads to major administrative issues (Kuffour, 2013). Improper record keeping by mobile bankers is also another key administrative issue facing the operators of microfinance. Under-recording of clients' monies by the mobile bankers has been a major concern by the contributors which sometimes leads to unnecessary arguments between the contributors and the mobile bankers leading to clients exit.

The companies are not able to monitor the activities of mobile bankers in the field leading to the gap of the mismatch of the records by the mobile bankers. Lack of proper monitoring of mobile banker's due to inadequate staff has also been a major contributor to the woes of the institutions.

Another major challenge for MFI is a rising exit rate. Unhappy users due to terms and conditions or poor relation to staff may be switching to competitors which will cause the overall fall of demand. Pawlak and Matul (2004) in their study stated that client exit (drop out) undermines MFIs effort to maintain long term banking relationship is necessary for its successful performance. Clients exit increases the MFIs cost structure, discourages other clients and reduces prospect for sustainability. A major factor of commercial viability is the productivity of staff and high exit rates (Kuffour, 2013).

2.5 Challenges in Operating Microfinance Institutions

The main concept of microfinance institutions is to give micro-credit to young and dynamic entrepreneurs to start micro businesses, farming etc (Kuffour, 2013) MFIs particularly in Kumasi find it very difficult obtaining commercial loans to finance their operations; hence there is an inadequate capital for their operations expansion. Currently, microfinance institutions are required to proof a holding shareholders fund of ¢100,000.00. This regulation has deterred many investors already in the industry (Kuffour, 2013). Problems and challenges of becoming a financial institution due to stringent regulations and legal frameworks by Bank of Ghana (BoG) in particular, to become a savings and loans company, the BoG mandatory deposit requirement is ¢15 billion (BoG -NBFIs Performance Review, 2004).

Microfinance is a major player in Ghana's socio-economic development but it is also being identified as not operating at its full potential (Abayie et al., 2011). For example, just 10% of demand for credit by the poor is satisfied by MFIs in Ghana (UNCDF, 2008). This may be due to inadequate training or no incentives for staff to improve on their performance to meet set targets (Abayie et al., 2011). Therefore, there is the need to improve on the quality of work services provided by MFIs. According to Abayie et al, (2011), there are several reports of management embezzlements as well as high rates of clients' default. One other major setback in SBs is that, most people who have no idea about saving and loans management involve themselves in microfinance service which ends up deceiving clients. Probably, the greatest among all the challenges is the accumulation of funds in financing start-up or expansion. According to Schaffer (1991), financial institutions feel reluctant in lending to small businesses due to its risky nature. Thus, the high risk nature of microfinance institutions scares away many investors which is also bad for the institution's rapid growth and development.

2.6 Diligence in the Operations of Microfinance Institutions

The core mandate of Bank of Ghana was basically guided by the use of accounting practices. The ratios per their style have the power to determine the risk exposure of financial institutions (Naser, 2013). Accounting practices are important for financial decision making irrespective of the size of the institution. However, over the past five years the Ghanaian economy has witnessed the collapse of many microfinance institutions that the public assumed to be highly visible in the financial market. Some of these collapsed institutions include Noble Dream Microfinance, Above All Financial Services and KAD Microfinance. These accounting practices defined profitability, financial performance, size and type of banks. Accounting ratio analysis has proven very essential to lenders because it allows them to see how one's business is doing and how it compares to other businesses which they have loaned money to. The potential loan creditor also requires information about security that the Ratio Analysis can be provided (Lambert, 1987). Ratios allow users to summarize, analyze and compare related data to provide meaningful information for making informed decisions. Accounting ratios are important for financial decision making irrespective of the size and how long the institution has been in operation.

2.7 Impact assessment of Microfinance Institutions on Small Businesses Concept

Impact assessment is a management tool used in evaluating the effects of activity on the proposed beneficiaries (Afranne 2000). The idea is to obtain whether the resources used produced the expected outcome on beneficiaries according to mission. Afranne (2000) defines Impact assessment of microfinance as focusing on the effect of microfinance services on customers and the ability of the MFIs to provide those services and continue in business into the future. As noted earlier, the microfinance institutions (MFIs) impact assessment more importantly enabling them stay exactly to their mission of assisting the poor people and low income individuals to epitomize their income growth as well as personality development. Before the spring-up of microfinance institutions, the SBs were borrowing from small scale lenders such as „sues" collectors, family members and friends who have excess funds and were ready to lend them on short term basis at any desirable interest rates which most often were as high as between 100% to 200%. (Asiedu Mante 2011). Hishigsuren, Beard and Opoku (2004) research on the Impact of the activities of Sinapi Aba Trust (SAT) on Clients, reported that there was a major change in sales revenue in both old and new clients who were giving loan but there was no significant change in clients" Net profits, saving and expenditure on children. Although some entrepreneurs are well versed in determining their need for capital and know where to find it, the failure of many businesses can be traced to undercapitalization. For start-ups, simply having a good idea will not be enough to convince many investors to risk their capital in your business.

2.8 Small Businesses (SBs) Challenges in Adopting MFIs Loans

It is an undisputable fact that microfinance institutions have become central players in Ghana's socio-economic development; there are some indications to suggest that MFIs are not operating at full scale capacity or impact (Abayie et al., 2011). For instance, only 10% of the potential demand for credit by the poor in the financial market is reached by MFIs in Ghana, (UNCDF, 2008). Though it may be true that lack or inadequate training may account significantly for these difficulties, it is also clear that little or no incentives to working staff to improve on individual or team performance or to achieve set targets; coupled with poor quality service to clients also contribute immensely to this phenomenon(Abayie et al., 2011). This can either be a misapplication of capital resources in the sector or poor portfolio quality to meet excess demand. The effect or significance of either or both of the aforementioned factors requires a conscious effort to improve on performance or efficiency of the microfinance institutions.

Similarly, reports also flood the media of huge embezzlements by managers of the scheme; as well as a high rate of default by clients (Abayie et al., 2011). Also, other challenge small businesses face is that people who cannot manage savings and loans facilities and products have engage themselves in microfinance service, deceiving their client at the end (Mintah et al., 2014). Small Businesses face many challenges in undertaking their businesses operations than large organizations (Mintah et al., 2014). The greatest among the difficulties is access to funds in financing start-up or for expansion of existing business. Lending to small businesses or entrepreneurs stay restricted because formal financial institutions feel reluctant to offer credit to the sector due to their high risk nature, small portfolios and high transaction cost of processing small loans (Schaffer and Weder 1991, Cuevas et al., 1993).

2.9 Human Capital Management and Performance of Microfinance Institutions

The human resources costs are usually written off to the profit and loss account and expenses in the books of the company rather than creating value for human capital and accounting for them in the balance sheet of the company as done in the case of physical assets like lands, machineries, equipments and financial assets like ordinary shares, treasury bills and debentures. Human resources which is the traditional name for human skills used in an institution over the years have remained less valued and recognized in the literature of banking and finance professions (Ikpefan et al.,2015).

The availability of skilled Human Capital is fundamental to creating and sustaining the momentum of Financial System Strategy 2020 (CIBN, 2012). This will depend heavily on the reformation of the collapsing Educational and Institutional structures on the collaborative and competitive attitude that the existing players in the Financial Services industry decide to adopt. Human capital is the knowledge and know-how that can be converted into value (Ikpefan et al., 2015) There is an immediate need to enhance the skills of the current workforce in the medium to long term need and to develop a continuous pipeline of quality human capital for the Financial Services Industry.

Human capital consists of know-how education, vocational qualifications, training, trading programs, union activity compensation plan and shares options scheme. The

Human capital in Management accounting, is very significant as it seeks to meet the needs of business managers and financial accounting which needs to meet the accounting needs of all the other users (Ikpefan et al.,2015).

Moreover Accounting is also based on a number of rules or conventions that have evolved over time in order to deal with the practical problems experienced by preparers and users rather than to reflect some theoretical ideal. As Management accounting is the systematic application of professional expertise and skill in the preparation and presentation of accounting information so as to help management and decision making units in the formulation of policies and in planning and controlling the activities of business enterprise. The need for a well skilled personal to handle such task of Management accounting is of much important to the survival of most Financial Institutions. The main users of such financial information are business owners, customers, employees and their representatives, lenders, government, suppliers, investment analyst, competitors and community representatives (Ikpefan et al, 2015).

This is because money is a useful common denominator with which to express the wide variety of resources held by a business (Eddie and Atrill, 2002). The negligence of professional accountants to treat human resources as assets just like physical and financial assets led to the emergence of Human Resources Accounting, (Eddie and Peter, 2002). There has been little debate in the literature on human resources accounting in the context of its significance when evaluating firm's performance. Flamholtz (1971) defines Human Resources Accounting as the measurement and reporting of the cost and value of people in organization resources. Efforts to make human capital acceptable as costs in organization have not been totally recognized. To bring value to human resources is to re describe it as human capital.

Human capital gives rise to Human Capital Assets whose value is significant to the organizations. Baker (2003) stated that, human capital asset (HCA) brings out the investment in human capital. How do will evaluate the value attributable to human capital? There has always been the problem of accounting for human capital value, which is conventionally being applied in reducing the profit of Micro-Finance Bank (MFB) and by implication; result is huge loss to organizations (Ikpefan et al.,2015).

2.10 Strategic Approaches in the Effective Management of Microfinance Institutions

Policies have lead to the emergence and introduction of three (3) major categories of microfinance institutions. They are, Formal suppliers such as savings and loans companies, rural banks and community banks, as well as some development banks and commercial banks; Semi formal suppliers such as credit unions, financial non-government organizations (FNGOs) and cooperatives, Informal suppliers such as Susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, money lenders and other individuals. The questions frequently asked are: How do they get their customers? And how do they promote their activities? Current marketing strategies involves a combination of a set of weapons employed by marketers to sell the product/services to target customers better than competitors.

Unfortunately, in the provision of microfinance services, institutions pay little attention to the marketing communication elements as a strategy of getting more customers (Bank of Ghana, 2007). Microfinance institution provides different kind of services to the poor all with the aim of elevating poverty. The primary challenge faced by microfinance institutions is how to reach a greater number of poor clients. The challenge for building a more viable and sustainable microfinance industry to meet this massive demand poses an exciting yet daunting challenge. The question one will ask is: “what are microfinance institutions doing to attract and retain the remaining potential customers into the microfinance industry?”

One important information likely missing in most empirical studies on micro financing in Ghana is the marketing orientation of microfinance institutions. The use of efficient marketing approaches and strategies by microfinance institutions in promoting their products and services will not only attract more new customers, but also ensure a viable, sustainable and attractive industry in the country.

Secondly, it is an acknowledged fact that, for any given organization that finds itself operating in an environment of increasing number of microfinance operators and other forms of competitors, it becomes rather more difficult to get the firm’s product noticed and for potential clients to do business with her without a good marketing mindset (that is without being customer focused) (William and Ahiakpor, 2011).

With regard to market strategies, many recent studies have attempted to identify the key features of marketing oriented institution. For instance, Kohli and Jawroski 1990) recognized marketing orientation. According to Gronroos (1990) marketing communication is the most visible aspect of the marketing approaches of micro finance institutions. The communication or advertising methods open to the microfinance institutions in delivering marketing to the customer could be classified as follows (William and Ahiakpor, 2011):

The first point has to do with Public relations**.** Which isthe creation and maintenance of corporate images is very vital to different audiences with the aim of presenting the microfinance institution in a more favorable light in news, stories and other media coverage which are not specifically paid for (William and Ahiakpor, 2011).

Again Sales promotion is another meth William and Ahiakpor mentioned. This has to do with events with short term objectives, using the similar media in advertising for example, reduction in interest rates, free delivery for bulky purchases, customer competitions and incentives, giving away consumer appliances of various values in return for different levels of deposits (William and Ahiakpor, 2011)

The third point has to do with Advertising. The focus of this approach is to reach a larger number of clients. Using mass media like TV, radio, the press, outdoor and transport media to reach large audiences. Other specialized vehicles, point-of-sale displays, sales literature etc. also fall under this category.

The last point is Personal selling. Face to face interaction and presentation by staff of the microfinance institution to a customer or potential customer which may include the use of supporting materials for display, presentation and explanations

A customer who is loyal is likely to be a low-risk borrower all other things being equal .Assuming that a microfinance institution molds its services to suit the specific demands by each client .Most often than not, old borrowers with good repayment records take much less time to manage than new clients with their credit histories had to be determined. Credit officers and managers with large volumes of loyal customers can manage more clients efficiently and diligently.

In dealing with human capital Ronen (2001) opined that human capital refers to the productive capacities of human beings as income producing agent in the economy which also consists of wealth, skills and knowledge, which have economic value cited in (Imeokparia, 2009:139). They found that HRA valuation was important for decision making in order to achieve the organization's objectives and also improve output. Sometimes it may be impossible to obtain the data necessary for a formal evaluation of training.

Using content analysis of 100 companies selected by market capitalization, Imeokparia (2009) found that companies are active in human resource and intellectual capital reporting. Enterprises report human capital because it will improve the performance of the enterprise. Kaplan et al (1992) and Kirkpatrick (1994) studies conducted on human capital showed that it would improve enterprise image in society; indicate social responsibility and ethical values to the outside world; improve marketing to present and potential customers; benchmark human resources management and development; attract and retain qualified labour force. Patra, Khatik and Kolhe (2003) examined the correlation between the total human resources and personnel expenses for their fitness and impact on production. Most companies report human resource and intellectual capital in the sundry section of the annual report such as the managing director's report, chairman's statement and value added statement (Patra, Khatik and Kolhe, 2003). The study showed human resource accounting and intellectual capital information by line count and one-third by frequency count.

2.11 The Practice of Due Diligence in the Operations of Microfinance Institutions

The core mandate of Bank of Ghana was basically guided by the use of accounting practices. The ratios per their style have the power to determine the risk exposure of financial institutions [*Naser [2013]*]. Prudent accounting practices are important for financial decision making irrespective of the size of the institution.. However, over the past five years the Ghanaian economy has witnessed the collapse of many microfinance institutions that the public assumed to be highly visible in the financial market. Some of these collapsed institutions include Noble Dream Microfinance, Above All Financial Services and KAD Microfinance. These accounting practices defined profitability, financial performance, size and type of banks (Sarkodie et al., 2015). Lenders often rely on accounting ratio analysis because it allows them to see how one's business is doing and how compare it compares to other businesses which they have loaned money to. The potential loan creditor also requires information about security that the Ratio Analysis can be provided [lambert, 1987). Ratios allow the user to summarize and analyze related data to provide meaningful information for making decisions [lang et al., 2010; lynch & willamson, 1983] Accounting ratios are important for financial decision making irrespective of the size of the institution**.**

2.12 Regulations Governing the Financial Sector in Ghana

Regulations and legislature governing rural and microfinance institutions (RMFIs) in Ghana have evolved with the market, both with opening up possibilities for new types of institutions and tightening up to restrain excessive entry and weak performance in the face of inadequate supervision capacity (William and David, 2003). The financial sector in Ghana consists of the following formal, semiformal and informal institutions (Hayder, 2002): Bank of Ghana (BoG) is the authorized body corporate which regulates and supervises the commercial banks and the Non-bank Financial Institutions;

The high statutory and liquidity reserve requirements that tie up 44% of commercial banks' and 62% of rural banks total deposits are worth mentioning: since reserves from primary reserve requirements must be directly held interest-free in the BoG, while reserves from secondary requirements must be held in interest-bearing bonds, these reserves are tied up and not available for on-lending to the private sector. The government of Ghana set up some sector-wide programs such as the Non-bank Financial Institutions Project (NBFI Project). This program has mainly supported NBFIs targeting the poor (Hayder, 2002).

The Government of Ghana is committed to promoting the Microfinance sector, as it sees microfinance as a suitable tool to combat and reduce poverty in Ghana. Assistance within the project which seeks to provide financial aid to the microfinance institution is mainly given through the provision of seed funds with the special purpose of enhancing the respective institutions' capacity, for example in terms of equipping and staffing (Hayder, 2002).Small unit Rural and

Community Banks (RCBs) are accommodated in the Banking Act; savings and loan companies in the Non-Bank Financial Institutions (NBFIs) Law; and credit unions under a new law being prepared to recognize their dual nature as cooperatives and financial institutions. The result – though not entirely by conscious design is several tiers of different types of RMFIs with a strong savings orientation and a much greater role of licensed institutions relative to NGOs than is found in many countries. The informal sector is dominated by a variety of savings-based methodologies, both individual and groups (William and David, 2003). The resulting system resembles the tiered approach recommended by the World Bank's 1999 study of microfinance regulation from the viewpoint of a regulator trying to assess what characteristics (such as size and taking deposits from the public) of RMFIs should "trigger" a regulatory response in the sense that the likely benefits would outweigh the costs of supervising relatively small financial intermediaries (Van Greuning et al.1999).

2.13 Religious, Geographical Coverage and Performance of Microfinance Institutions

There is a strong concentration in Microfinance Institutions (the physical offices providing microloans) in the southern, coastal regions of Ghana, where much of the population is located in large cities, and rates of literacy and education are relatively high. Within Ghana, there are disparities in access to Microfinance services. Large swathes of northern Ghana are completely devoid of Microfinance Institutions (MFIs), with only a few branches providing services for much of the region. In many countries, the highest concentration of MFIs is in urban areas, which have the density of population to create a borrower network (Vanroose, 2008). A significant factor in determining MFI development is population density. MFIs need a flow of borrowers to be successful, and this means that there is often a critical mass of population required to successfully maintain MFIs. Transportation infrastructure can play a crucial role in access to Microfinance. In areas with poor infrastructure and spread-out populations, the travel time and cost to reach MFI locations can be a major hindrance to the business of MFIs (Schreiner, 2001).

This religious diversity is strongly concentrated by region, with the south being predominantly Christian, and the north being largely Muslim or traditional. Islam can be a barrier to traditional Microfinance practices. Ghana as a nation is 71% Christian and 17% Muslim, 28 with another 5% of the population following traditional religions (Schreiner, 2001). There are some Muslim MFI branches 31 which use alternative methods to work within these constraints (such as leasing arrangements in which equipment is initially owned by the MFI and equity is transferred to the borrower with each payment), but these are less common than traditional MFIs. According to guidelines laid out in the Quran29, Muslims are not permitted to collect interest on loans, or have regular scheduled repayments for borrowed money.

Additionally, many research studies have shown that in other developing countries, such as Nigeria (Olu, 2009) and Malaysia, greater numbers of MFIs actually leads to higher levels of employment in the private sector. This relationship may seem paradoxical. As Areas with lower employment are those close to cities. As a rule, urban areas tend to have a more developed private sector, leading to greater employment. Some studies have shown a relationship between the informal economy and MFI development, that Microfinance Institutions contribute to growth in the informal economy which was shown in Madagascar (Gubert and Francois , 2011).

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter covers a description of the design of the study, the population of the study, sampling and sampling technique, data collection technique, research procedures, analysis of data and presentation of the methodology form part of any research study illustrates the steps that have been followed in conducting the study and the steps involved are described in detailed results.

3.2 Research Design

The study was conducted in survey research approach. Surveys are information-collecting method use to describe, compare, or explain individual and societal knowledge, feelings, values, preferences, and behavior (Flynn 1994).This study adopted the 'mixed' method approach (a combination of both quantitative and qualitative approaches). This was done for complementary purposes. Combining these approaches enabled the study to obtain a more suitable and consistent results compared to what would have been achieved by using a single method. The quantitative method was used to obtain data from employees of the microfinance institutions in Kumasi. The quantitative method is suitable because the nature of the research questions is such that the data must be collected quantitatively and analyzed quantitatively in order to provide reliable answers.

3.3 Research Population and Sampling

3.3.1 Population

The population of any research is made up of the individual units or an aggregate, that is the unit or the individual that form the population whereas a sample is a section of the population selected randomly or otherwise to present the population (Saunders et al 2007).

The microfinance institutions in Kumasi **c**onstituted a population of about fifty (50) in the metropolis according to the provitional list presented by Bank of Ghana. (BoG 2012)

3.3.2 Sample Size

Specifically, the sample size of this study is made of 10 microfinance institutions. Sampling is a process of selecting a portion of population to represent the total population and the findings from the sample represents the rest of the group.

3.4 Sampling Technique

The sampling technique adopted for this study was a two phased stratified sampling. This method of sampling enables one to use his judgment to select cases that will enable a researcher to answer research questions and to meet stated objectives (Saunders et al 2007). This was the method used to select the five (5) employees from the selected Microfinance institutions in Kumasi who responded to the questionnaire. The convenient sampling method is a simple approach where a sample is selected according to the convenience of the researcher (Saunders et al 2007). The challenge with such approach is, it does not ensure representative samples of all the known elements of the population in the sample. The secondary data was sourced from the annual audited accounts of these microfinance institutions and the legal framework governing the operations of the microfinance institutions. The population in this study included all microfinance institutions in Kumasi.

3.5 Data Collection

The data collection for the research was mainly based on two (2) sources: Primary source data collection and secondary source data collection. The primary source of data was from the field survey where distribution of questionnaires and interviews was used. Secondary data was collected from financial reports of various microfinance firms. The respondents to the questionnaire were staff of the responding financial institutions. Piloting of the questionnaire was done to assist the researcher identify any ambiguous and unclear questions.

3.6 The Building of Questionnaire

The questionnaires were administered personally in order to clarify any difficulty that the respondents may encounter. The questionnaire was structured into three (3) sections. Section one (1) contained the demographics of the respondent. Section (2) and three (3) were framed in accordance with the objectives of the study. A total number of Ten (10) sampled microfinance institutions and 5 managerial staffs were line of duty turn to look at operation management, credit risk managers, loan processing officers both of junior and senior staff.

3.7 Data Analysis

This section talks about how data was analyzed and interpreted accordingly with the aid of descriptive statistical technique such as total score and simple percentages.

Quantitative as well qualitative methods were applied in the analysis of the data collected. After collection of data, the next step is identifying the tools to aid in its analysis. Data analysis was done by using Microsoft excel and the Statistical Package for Social Science.

3.8 Measure of Realibity and Validility

According to Flynn et al (1994) reliability and validity, provide confidence that the empirical findings accurately reflect the proposed constructs. The questionnaires were pilot tested to determine the potential effectiveness of the questionnaires. To validate the results, appropriate reliability and validity tests of the measurement were taking. Indeed, reliability refers to the instrument's ability and capability to verify consistent results in repeated uses, whereas validity refers to the degree to which the instrument measures the concept the researcher wants to do. The format for responding was through close-ended and open-ended questions.

3.9 Ethical Considerations

Managers and staff were asked if they had the luxury of time to fill the questionnaires. More importantly, the purpose for which the research is conducted was explained to respondents before they were handed with the questionnaire to fill. A lot of ethical issues like Research approval, management consent and confidentiality agreements will be taken into consideration before, during and after the study. All articles, journals, books among others that were used in this study were properly referenced.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter gives a breakdown of the data analyzed and reveals the findings of the topic under study, which gives account on exploratory study into operations of microfinance institutions within the Kumasi metropolis.

The output data were represented in a tabular form which gives a record reading in percentage, frequency and statistical values such as mean, mode and standard deviations.

4.2 Personal Profile of Respondents and Education Level

In evaluating the profile of the respondents it was revealed that among the number interviewed, 25.4 % were credit officers forming the majority of respondents, followed by branch manager which recorded a percentage rate of 23.6%. Operational mangers accounted for 14.5% of the total respondent. Comparatively with the total respondent interviewed 54.5% were males as compared to 43.6% who were females, on their period of service with the respective field of work almost 41.8% have been working within the past of 2-5years, 36.4 where below 2yaers and the least recorded was 5.5% were above a passé of above 15years. On the level of education, the highest recording was holder of first degree representing 40%.

Table 4.1: Personal Profile of Respondents

Variable	Frequency	Percentages
Account Officer	*3*	*5.5*
Branch Manager	*13*	*23.6*
Credit Manager	*2*	*3.6*
Credit Officer	*15*	*25.4*
Customer Service	*6*	*10.9*
Investment Officer	*6*	*10.8*
Operation Manager	*8*	*14.5*
Relationship Officer	*3*	*5.5*
Total	*55*	*100.0*
Gender		
Male	*30*	*54.5*
Female	*24*	*43.6*
Missing System	*1*	*1.8*
Age		
Below 20years	*7*	*12.7*
20-29	*30*	*54.5*
30-45	*18*	*32.7*
Marital status		
Single	*30*	*54.5*
Married	*23*	*41.8*
Missing System	*2*	*3.6*

Source: *Field Data, 2016*

Table 4.2: Education Qualification

Levels	Frequency	Percentages
SSCE	3	5.5
HND	6	10.9
Degree	22	40.0
NAP	23	41.8
Missing System	1	1.8
Years of Working Experience		
Less than 2years	20	36.4
2-5 years	23	41.8
6-10years	4	7.3
Above 15years	3	5.5
Missing System	5	9.1

Source: *Field Data, 2016*

4.3 Operational Profile

On certain key profile of most microfinance institutions in Ghana, it was revealed that within most set-up the minimum employees for daily operations of the institution 40% respondents indicated more than15 employees within their set-up, and 27.3% had a number of 11-15 people being employed. This affirms the notion that most microfinance institutions due to their little operations capital do not take un board much employees

Table 4.3: Operational Profile

Number of employee the organization has in Kumasi Municipality	Frequency	Percentages
5-10	18	32.7
11-15	15	27.3
More than 15	22	40.0
Number of client currently		
Less than 200	17	30.9
201-500	20	36.4
501-800	6	10.9
801- 1100	2	3.6
1101-11400	2	3.6
More than 1400	8	14.5
Mode of Maintaining the Records		
Use of Computers	51	92.7
Others	2	3.6
Missing System	2	3.6
Share Holders of the Institutions		
Members of The Community	4	7.3
Church and Other Institutions	7	12.7
Individuals	42	76.4
System	2	3.6

Source: *Field Data, 2016*

4.3.1 Operational Performance

In ascertaining the operational performance of most microfinance institutions in Kumasi, it was revealed that most respondent were satisfied with the current operational set-up within their outfit, as 49.1% agreed to that fact as compared to

34.5% who said averagely and 12.7% who said no. in response to the availability of resources needed to carry out effective operational activities it was affirmed by 41.8% who agreed to the availability of resources needed to carry out effective operation, with 34% viewing as averagely and 20.0% who said no. This affirmed the fact that microfinance institutions in Kumasi made adequate resources for operational activities and on the level of concern by management in carrying-out effective operational activity, 56.4% agreed to that fact as compared to 10.9% who said no and 29.1% being averagely. The above evaluations affirmed that, most microfinance institutions within Kumasi had operational activities as a key concern and resources were made available to effective business operation.

Table 4.4: Operational Performance

Level of satisfied with the current operational set-up within most financial outfit		
Yes	27	49.1
No	7	12.7
Averagely	19	34.5
Level of motivated with the required resources to carry out evaluations in operational evaluation process most financial outfit		
Yes	23	41.8
No	11	20.0
Averagely	19	34.5
Effective operational management being a key concern by most financial outfit		
Yes	31	56.4
No	6	10.9
Averagely	16	29.1
Number of employees within your outfit		
5-10	10	18.2
11-15	17	30.9
More than 15years	26	47.3

Source*: Field Data 2016*

4.3.2 Loan Granting

In the granting of loans, it was identified that, most microfinance institutions in Kumasi, made provisions for the granting of emergency loan, this was affirmed by

65% of the respondent as compared to 30.9% who did not offer such provisions on emergency loans.

On the level of sustainability to the granting of emergency loans by microfinance institutions in Kumasi it was made known that such loans were averagely sustainable, this was ascertained by 52.7% of the respondent, moreover 25.5% of the respondents were of the view that such loans were not sustainable. On the level of legal framework governing the operations of microfinance institutions, 56.4% of microfinance institutions viewed the legal framework as favorable as to 40% who said the system was very restrictive.

Table 4.4: Loan Granting

Approaches		
Granting of emergency loan	***Frequency***	***Percentages***
Yes	*36*	*65.5*
No	*17*	*30.9*
Sustainable is urgent loans		
Very Sustainable	*8*	*14.5*
Not Sustainable	*14*	*25.5*
Averagely Sustainable	*29*	*52.7*
Nature of regulatory framework		
Favorable	*31*	*56.4*
Restrictive	*22*	*40.0*

Source: *Field Data*

4.4 Roles of Microfinance to Economic Impact of SMEs

This section looks at the role of microfinance and their impact to SMEs. Out of a number of responses, it was identified that Loans Management Advice was key. This recorded the highest mean value of (4.00), this was followed by Financial / Bookkeeping Advice and Short Term Loans to meet Emergencies, which recorded a mean value of (3.93) and (3.84) respectively. This affirms that loan management advice was the key role being carried to Small and medium enterprise by microfinance institutions in positively impacting on the business community within the Kumasi metropolis.

Table 4.5 Role of Microfinance to Economic Impact SMEs

No	*Roles*	*Mean*	*Std. Deviation*	*Rank*
1.	*Loans management advice*	*4.00*	*.922*	***1st***
2.	*Financial / bookkeeping advice*	*3.93*	*.843*	***2nd***
3.	*Management advice / training*	*3.66*	*.939*	***5th***
4.	*Short term loans to meet emergencies*	*3.84*	*.764*	***4th***
5.	*Provision of insurance on loans*	*3.17*	*1.155*	***6th***
6.	*Provision of insurance on business*	*2.87*	*1.139*	***7th***
7.	*Provision of interest on savings*	*3.91*	*.860*	***3rd***
8.	*Provision of pension schemes*	*2.50*	*1.476*	***8th***

4.5 Operational Challenges Faced by Microfinance Institutions

On the challenges faced by management of microfinance institutions in Kumasi, it was revealed that on a daily base management face challenges in their daily transactions among such challenges included dishonest employees, which recorded the highest mean value of (4.29).This was followed by clients not understanding the concept of microfinance. Standardize reporting and performance monitoring system had mean values of (4.05) and (3.81) respectively. This echoes the need for management of microfinance institution to carry-out due diligence in the recruitment of the right caliber of personnel's as their level of honesty and professionalism was key in the performance of microfinance institutions.

Table 4.6 Operational Challenges

No	Challenges	Mean	Std. Deviation	Rank
1.	*Lack of performance monitoring and recording*	*3.81*	*.93*	***3rd***
2.	*Inefficient communication and awareness*	*3.47*	*.99*	***10th***
3.	*Inadequate loan*	*3.64*	*1.02*	***8th***
4.	*Inadequate management capacity*	*3.79*	*1.03*	***5th***
5.	*Lack of client's understanding of microfinance concept*	*4.05*	*.89*	***2nd***
6.	*Insufficient support from government*	*3.76*	*1.28*	***7th***
7.	*Dishonest employees*	*4.29*	*.96*	***1st***
8.	*Non-payment of loans*	*3.80*	*1.09*	***4th***
9.	*Lack of attention on MFIS financial sustainability*	*3.78*	*1.00*	***6th***
10.	*Sustainability of MFIS*	*3.49*	*1.00*	***9th***
11.	*Inadequate donor funding*	*3.16*	*1.27*	***12th***
12.	*Improper regulation*	*3.37*	*1.40*	***11th***

4.6 Internal and External Factors to the Collapse of Microfinance Institutions in Kumasi

On the factors that internally affected or contribute to the collapse of microfinance institutions, it was revealed that mismanagement with the highest mean value of (4.07) was the main attributing courses of most microfinance institutions in Kumasi. This was preceded by Illegal operation with unethical practices and Disregard of due diligence which gave a mean reading of (3.10) and (2.86) respectively. Based on the above evaluations is of the need for management to put in place measure which will avoid the effect on mismanagement with their respective firm, in addition the act of Illegal operation with unethical practices and Disregard of due diligence needs to be checked and critically avoided.

With the external factors which are the attributing causes to the collapse of most microfinance institutions in Kumasi, it was revealed that Collapse Rumor leading to panic withdrawal with the highest mean of (4.45) was the strongest variable being attributed to the causes in the collapse of most microfinance institution in Kumasi. Other preceding factors were high lending and Cedi depreciation, which recorded means values of (3.10) and (3.05) respectively. To ensure effective operations o0f microfinance within the Kumasi metropolis management should put in place a mechanism which will avoid panic and fear within the public in their daily transactions with the microfinance institutions. As the boiling effect of such rumors create fear and panic that leads to panic redrawals.

Table 4.7: Internal and External Factors to the Collapse of Microfinance Institutions

No	Factors	Mean	Std. Deviation	Rank
	Internal factors			
1	*Unsustainable Returns*	2.81	1.8	***4th***
2	*Failure to do due diligence*	2.74	1.47	***5th***
3	*Illegal operation unethical practices*	3.10	1.12	***2nd***
4	*Indiscriminate branching*	2.43	1.63	***7th***
5	*Disregard of due diligence*	2.86	1.34	***3rd***
6	*Mismanagement*	4.07	1.02	***1st***
7	*Violation of Bank of Ghana Rules & Guidelines*	2.57	1.52	***6th***
	External factors			
1	*Collapse Rumor leading to panic withdrawal*	4.45	1.59	***1st***
2	*Cedi depreciation*	3.05	1.65	***3rd***
3	*High lending*	3.09	1.68	***2nd***
4	*Economic meltdown*	2.93	1.42	***4th***
5	*Insufficient support from governments*	2.48	1.17	***5th***
6	*High rate of reserve capital by bank of Ghana*	2.40	1.31	**6th**

CHAPTER 5

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings in respect to the topic at stake, which sort to explore the operations of microfinance institutions within the Kumasi metropolis.

Base on that, recommendations were made which will serve as a pipeline or a policy guide for management of Microfinance Institutions, Within the Kumasi Metropolis for effective managerial operation.

5.2 Summary of Findings

In evaluating the profile of the respondents it was revealed that among the number interviewed, were credit officers forming the majority of respondents, followed by branch manager and operational mangers. Comparatively with the total respondent interviewed males where more as compared those who were females, on their period of service with the respective field of work, majority have been working for the past 2-5 years followed by 2 years and the least recorded were those above 15 years. On the level of education, the highest recording was holder of first degree representing as compared to master and other related qualifications.

Looking at the challenges faced by management of microfinance institutions within Kumasi, it was identified that on a daily bases management are faced with operational challenges such as dishonest employees. Another major challenge identified was lack of performance monitoring system. This drives the need for management of microfinance institution to carry-out due diligence in their recruitment process to get the right caliber of personnel's as their level of honesty and professionalism was key in the performance of microfinance institutions. Also, understandings of the concept of microfinance by clients were key issues that need to be addressed.

With regards to the research question that sort to ascertain the impact of micro credit on SMEs performance, this study identified that although some SMEs are accessing credit facilities from micro credit institutions, there still however is a major challenge for both the micro finance institutions and the SMEs for different reasons. Firstly, it was realized that most of these business owner did not have credible collateral to present to these institutions to access micro loans. The institutions however have stringent loan qualification policies which makes access to SMEs also difficult for the institutions.

Internally, in identifying the factors which affected or contribute to the collapse of microfinance institutions, it was revealed that mismanagement was the main attributing courses to the collapse of most microfinance institutions in Kumasi. This was preceded by Illegal operation with unethical practices and disregard to due diligence to the establishment and operations of microfinance institutions. Based on the above evaluations is of the need for management to put in place measure which will avoid the effect on mismanagement with their respective firm, in addition to that, the act of Illegal operation with unethical practices and Disregard of due diligence needs to be checked and critically avoided. This sheds light on the research question, "How sustainable is emergency loans in the microfinance industry?", because the proper ethical practices are not being adhered to, emergency loans are gradually becoming unsustainable for the micro finance institutions to manage. However with strict policies and quality control checks, due diligence would rebuild the confidence in emergency loans for the micro finance institution in Kumasi.

On the external factors attributing to the causes in the collapse of most microfinance institutions in Kumasi, it was revealed that Collapse Rumor leading to panic withdrawal was the strongest variable which leads to the causes in the collapse of most microfinance institution in Kumasi. With regard to the relationship between credit risk and the growth rate of gross loans, findings support that micro finance institution are currently granting fewer loans in the face of an increase in the credit risk, this in particular with regard to non-performing loans.

The research question that queries the effects of non-performing loans is answered to the effect that, more micro finance institutions are working on reducing the occurrence of these bad loans by playing safe in client selection and loan qualification. Since the major method of claiming such loans is by involving the police, most SMEs get deterred to access loans from such institutions that have once used arrests as their means of recovering bad debts, even though it is always the last resort after several other methods have failed.

The ability of micro finance institutions to offer loans to micro finance is mostly based on the qualification attributes of the SME owner. Most of these businesses are not properly registered or housed making it cumbersome for the institutions to keep proper records of these businesses. The research question that enquires about accessibility of credit facility is explained in this section. A considerable number of SME owners are not literates and this makes contracts and brochures a difficult task for the microfinance to explain. There are sometimes miscommunication of the repayment methods used by the microfinance institutions which creates fewer credit availability. The study also realized that most SMEs could not provide credible guarantors to act as securities to access loans. This has lessened the number of SMEs that qualify for loan facilities. One major setback to access to credit facilities was the interest rates being offered by the microfinance institutions. As compared to the major banks, the interest rates being offered by the microfinance institutions to the SMEs are relatively to high but the risks being borne by the microfinance institutions are steep as well.

Other preceding factors were high lending and Cedi depreciation. To ensure effective operations of microfinance within the Kumasi metropolis management should put in place a mechanism which will avoid panic and fear within the public in their daily transactions with the microfinance institutions. As the boiling effect of such rumors create fear and panic that leads to panic redraws.

5.3 Conclusions

This research identified the various roles of microfinance to businesses and individuals within the Kumasi metropolis. It also identified the various challenges faced by microfinance institutions and the major causes of collapse of microfinance institutions. It is however important to note that, the operations of MFIshave contributed immensely to to the growth of SMEs sector to a very large extent. The research findings also showed that the MFIs have contributed to have contributed to the development of SMEs through the delivery of non-financial services such as Business, Financial and managerial advisory and training programs. With all these parameters identified, various decisions that affect microfinance institutions can be deliberated on to bring out higher output in their operations.

5.4 Recommendations

From the research findings, the following recommendations can be look at to improve the services of MFIs in the metropolis and ensure sustainability of the industry which provides enormous benefits to both individuals and SMEs within the country at large

It was identified that Circumspection in recruitment and selection of the right and qualified human personnel is very vital in ensuring a sustainable growth in the Industry. In ensuring right approaches in achieving required results, it is very prudent for MFIs to employ the qualified personnel who may have the necessary skills and experience to ensure professionalism in their daily acticities. In our study it was revealed that most staff that held certain vital position may or may not have the expertise which does not foster growth.

Also, due diligences by management in the legal operation with ethical practices and control of public Rumor in avoiding panic withdrawal must be ensured. The right things should be done and must be done right. Management should inculcate due diligence in their operations and to embark on legal activities at all times.

Management should have in mind that funds mobilized are not their own and should not play games or gamble with it.
Periodic customer’s seminar by management on various services and policy guidance to prospective customer on their business guidance and operations with respective financial institutions is one of the recommendations that can be looked at.

It was also recommended that MFIs provide some form of training to their customers such as proper book keeping, sales monitoring saving culture and so on. They should also advice their cient on the products that would be beneficial to them they have and should provide services that would provide value for money for their respective clients.

Frequent checks and balances by Bank of Ghana to ensure that rules and regulations are adhered to by the microfinance institution is another recommendation worth considering. The regulatory body of the microfinance institution whichis the Bank of Ghana should be more vigilant and vibrant in montoring and controlling the activities of the institiuion. This would help sanitise the system by detecting earlier some challenges and malpractises some of the microfinance isntititutin may be indulging in. This would at the long bring promte confidence in the microfiance institution which seems to be on the edge of collapsing.

Again, appropriate and wide spread loan monitoring activities should be adopted for clients who are given credit facilities to ensure a relatively lower default rate is a major concern. The study also revealed that MFIs should employ more persons to ensure regularly monitoring of the progress of businesses so that loans collected are put to rightful use and they should offer proper business advice so that their businesses will florish thereby enabling them to pay loans secured and also improve upon their living conditions.Also, it is recommended that MFIs should develop proper mechanism and tools to excess more business growth which partner with them such as physical features such as stock level, savings and loan repayment rates may be deceptive.

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APPENDICES

APPENDIX 1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

THIS IS AN ACADEMIC E.XERCISE. YOUR CONFIDENTIALITY IS HIGHLY ASSURED.

TOPIC**: EXPLORATORY STUDY INTO OPERATIONS OF MICROFINANCE INSTITUTIONS WITHIN THE KUMASI METROPOLIS**

INSTRUCTIONS

Please complete where applicable or indicate the extent to which you agree/disagree by ticking the appropriate boxes of preferred answers to the questions below.

TARGET RESPONDENT: (Operational And Credit Risk Officers)

SECTION A: Background of Respondents

1. Position of Respondent ………………………………..
2. **Department**………..…………… …………...
3. Name of institution…………………
4. **Gender**: Male [ ] Female[ ]
5. **Age**: (i) Below 20 years [ ] (ii) 20 -29 [ ] (iii) 30 – 45 [ ] iv. 45 – above[ ]
6. **Marital Status**: (i) Single[ ] (ii) Married[ ] (iii) Divorce[ ]
7. **Education qualification:**

(i) SSCE[ ] (ii) HND [ ] (iii) Degree [ ] (iv) Master's degree [ ]

(v) Others, specify ………………….

8. **Religious Status:**

(i) Christian [ ] (ii) Muslim [ ] (iii) Traditionalist [ ]

(iv) Others, Specify ……………………………

8. How long have been working within your outfit?

a. Less than 2years.............

b. 2-5 years………………..

c. 6-10 years……………...

d. 11- 15years…………….

e. above 15years………….

Section B: Operational activities

1. Do you feel satisfied with the current operational set-up within your outfit**?**

   Yes ……. No…… Averagely………….

2. Are you well motivated with the required resources to carry out evaluations in operational evaluation process within your outfit?
   - Yes………… No…………………. Averagely………….

3. Does effective operational management serve as a key concern by your outfit

   Yes ……. No…… Averagely………….

a. **Number of employees within your outfit**
   5-10 ☐
   11-15 ☐
   More than ☐

SECTION C: LOAN GRANTING

a. Granting of emergency loan
   - Yes ………..
   - No ………....

b. How sustainable is urgent loans
   - Very sustainable ☐
   - Not sustainable ☐
   - Averagely sustainable ☐

c. Nature of regulatory framework
   - Favorable ☐
   - Restrictive ☐

SECTION D: OPERATIONAL INFORMATION

a. **Number of employees the organizations has in Kumasi Municipality**
   5-10 …………..
   11-15 ……........
   More than………….
b. **Number of client currentl**y
   Less than 200 …………….
   201-500 ……………..
   501-800 …………….
   801- 1100 ……………
   1101-1400 …………….
   More than 1400 ……………

c. **Mode of maintaining the records**
   Manuel …………………..
   Use of computers
d. **Mode of maintaining the records**
   Members of the community ………………………
   Churches and other institutions ……………………
   Individuals………………………………………….

SECTION E : Role Of Microfinance Institutions On Economic Impact Of SME

Role of Microfinance	**Strongly Disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly Agree (5)**
Loans Management Advice					
Financial / Bookkeeping Advice					
SB Management Advice / Training					
Short Term Loans To meet Emergencies					
Provision Of Insurance On Loans					
Provision Of Insurance On Business					
Provision Of Interest On Savings					
Provision Of Pension Schemes					
Loans Management Advice					

SECTION F : Challenges Faced By Microfinance Institution In Their Operations

Challenges Microfinance	Strongly Disagree (1)	Disagree (2)	Neutra l (3)	Agree (4)	Strongly Agree (5)
Huge registration fees					
Lack of standardize reporting and performance monitoring system for microfinance institutions.					
communication gaps and inadequate awareness					
Lack of adequate loan or equity capital to increase loan-able funds.					
Limited management capacity of micro finance institutions					
Lack of understanding of the definition and concept of microfinance by the clients.					
Insufficient support from governments					
Dishonest employees					
Nonpayment of loans					
Less attention on financial sustainability of MFIS					
Inadequate donor funding					
Improper regulations					

SECTION G: Factor Attributing To The Collapse Of Microfinance Institutions In Kumasi

Cause of Collapse	Number of customers	Percentage %
• **Internal Factors**		
Unsustainable Returns		
Failure to do due diligence		
Illegal operation unethical practices		
Indiscriminate branching		
Disregard of due diligence		
Mismanagement		
Violation of Bank of Ghana Rules & Guidelines		
• **External factors**		
Collapse Rumor leading to panic withdrawal		
Cedi depreciation		
High lending		
Rates		
Economic meltdown		
Insufficient support from governments		
High rate of reserve capital by bank of Ghana		

Small Businesses Main Objective of Working with MFIs

Role of Microfinance	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
To secure credits to run Business					
To Save funds to expand Business					
To Save funds for Personal Project					
To Receive Business Advice externally					
To secure credits to run Bus iness					
To Save funds to expand Business					
To Save funds for Personal Projects					
To Receive Business Advice externally					
To secure credits to run Business					

External variables which influence the effective operational management of microfinance institutions

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Financial and economic conditions					
Legal and administrative firm					
Political / governance practices					
Availability of social capital					

Specific terms and conditions or support needed from the regulatory bodies (central Bank) for effective operation of microfinance institutions within Kumasi Metropolises

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

APPENDIX 2

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

THIS IS AN ACADEMIC EXERCISE. YOUR CONFIDENTIALITY IS HIGHLY ASSURED.

TOPIC: **EXPLORATORY STUDY INTO OPERATIONS OF MICROFINANCE INSTITUTIONS WITHIN THE KUMASI METROPOLIS**

INSTRUCTIONS

Please complete where applicable or indicate the extent to which you agree/disagree by ticking the appropriate boxes of preferred answers to the questions below.

SECTION A: Background of Respondents (Operational Managers at the Central Bank)

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1. **Position of respondents …**……………………………...
2. **Department**………..……………
3. Name of institution…………………
4. **Gender**: Male [ ] Female[ ]
5. **Age**: (i) Below 20 years [ ] (ii) 20 -29 [ ] (iii) 30 – 45 [ ] iv. 45 – above[ ]
6. **Marital Status**: (i) Single[ ] (ii) Married[ ] (iii) Divorce[ ]
7. **Education qualification:**

(ii) SSCE[ ] (ii) HND [ ] (iii) Degree [ ] (iv) Master's degree [ ]

(v) Others, specify ………………….

8. **Religious Status:**

(i) Christian [ ] (ii) Muslim [ ] (iii) Traditionalist [ ]

(iv) Others, Specify ……………………………

8. How long have been working within your outfit?

a. Less than 2years............

b. 2-5 years………………..

c. 6-10 years……………...

d. 11- 15years…………….

e. above 15years………….

Section B: Employee And Compensational Packages

1. Do you feel satisfied with the current managerial set-up among most Microfinance Institutions in Kumasi**?**

   Yes ……. No…… Averagely………….

2. Do most microfinance institutions within Kumasi meet the required modalities for the establishment of microfinance Finance Institutions within the metropolis

   - Yes………… No…………………. Averagely………….

3. Does effective operational management serve as a key concern by most Microfinance Institutions in Kumasi?

   Yes ……. No…… Averagely………….

4. Nature of regulatory framework

- Favourable ☐
- Restrictive ☐

SECTION D: OPERATIONAL INFORMATION

e. Number of registered Microfinance institutions within the Kumasi Metropolises

i. ……………………………..

f. **The required reserved capital before operation?**

11001-14000 …………….

14000 - 1000000 ……………

1000000 – 1500000………….

Specific ………………………

g. Mode of maintaining the records

Manuel …………..………………..

Use of computers…………………..

h. Donors of the Institutions

Members of the community ………………………….

Churches and other institutions

Individuals

SECTION E : Role Of Microfinance Institutions On Economic Impact Of SME

Role of Microfinance	**Strongly Disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly Agree (5)**
Loans Management Advice					
Financial / Bookkeeping Advice					
Management Advice / Training					
Short Term Loans To meet Emergencies					
Provision Of Insurance On Loans					
Provision Of Insurance On Business					
Provision Of Interest On Savings					
Provision Of Pension Schemes					
Loans Management Advice					

SECTION F : Challenges Faced By Microfinance Institution In Their Operations

Challenges Microfinance	Strongly Disagree (1)	Disagree (2)	Neutra l (3)	Agree (4)	Strongly Agree (5)
Huge registration fees					
Lack of standardize reporting and performance monitoring system for microfinance institutions.					
communication gaps and inadequate awareness					
Lack of adequate loan or equity capital to increase loan-able funds.					
Limited management capacity of micro finance institutions					
Lack of understanding of the definition and concept of microfinance by the clients.					
Insufficient support from governments					
Dishonest employees					
Nonpayment of loans					
Less attention on financial sustainability of MFIS					
Inadequate donor funding					
Improper regulations					

SECTION G: Factor Attributing To The Collapse Of Microfinance Institutions In Kumasi

Cause of Collapse					
• **Internal Factors**					
Unsustainable Returns					
Failure to do due diligence					
Illegal operation unethical practices					
Indiscriminate branching					
Disregard of due diligence					
Mismanagement					
Violation of Bank of Ghana Rules & Guidelines					
• **External factors**					
Collapse Rumor leading to panic withdrawal					
Cedi depreciation					
High lending					
Rates					
Economic meltdown					
Insufficient support from governments					
High rate of reserve capital by bank of Ghana					

External variables which influence the effective operational management of microfinance institutions

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Financial and economic conditions					
Legal and administrative firm					
Political / governance practices					
Availability of social capital					

Various Requirement Needed By The Central Bank From Microfinance Institutions Before Start Of Operations

……………………………………………………………………………………

……………………………………………………………………………………