ASSESSING THE IMPACT OF COLLAPSE OF MICROFINANCE INSTITUTIONS ON ITS CUSTOMERS IN GHANA (A CASE STUDY OF THE KUMASI METROPOLIS)

By

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Finance - Option) Degree 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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DEDICATION

I would like to dedicate this thesis work to the Almighty God who endowed me with knowledge, strength, ability, and power for a successful completion, and to my dearest daughter Jesselyn Lisa Baku.

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ABSTRACT

Credit mobilization operations has gone through different phases since its inception in Ghana in the 1950's by Canadian catholic missionaries. However it was in the 1990's that the establishment of Microfinance Institutions was formalized. However recent collapse of microfinance institutions have been disturbing and does not auger well both for the industry and customers alike. The year 2013 alone recorded a collapse of over 30 microfinance institutions with customers loosing monies in the region of billions of Ghana Cedis. It is for this reason this study seeks to find out the impacts of such collapses on the customers of microfinance institutions. To enable this analysis, 350 respondents consisting of customers of collapsed MFI's were interviewed using semi-structured questionnaires. Descriptive statistics were used in the analyses; specifically pie charts, bar charts, tables, and cross tabulation using Statistical Package for Social Sciences (SPSS) software. The empirical findings from the test shows that collapse of microfinance institutions leads to loss of capital, business collapse, jeopardized education, collapse of marriage among other things. By using the Chi-squared test of independence, the study also found that the impact of collapse microfinance institutions is dependent on the amount of capital lost. It is recommended that effective monitoring and operations of superiors as well as a well-structured channel of communication in microfinance institutions should also be adhered to without compromise.

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CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

The millennium development goals (MDGs) have brought the emphasis on people back to the center of development, whilst microfinance, by providing financial services to the less endowed people, has created an assurance that many people will be able to improve their economic condition.

The 151 heads of state who attended the UN 2003 world summit, acknowledged the importance of microfinance in achieving MDGs. Other things to be done that emphasized microfinance in minimizing poverty include the 2004 G8 declaration and 2005, the commission of private sector development, the microcredit summit of 1997, the declaration of the international year for the eradication of poverty (1996) and the international decade for eradication of poverty (1996).

Before the commercial banking systems in Ghana, majority of the low-income households, mostly women, and those in small places depended greatly on rural banking services and the savings and loan schemes. Cooperatives, particularly, in the midst of farmers of the 1920s, involve in small loans. The aim of the previous small loans institutions or microfinance activities in Ghana was to assist the poor with social and economic support, especially rural women and their families (Egyir, 2010). However, microfinance sub-sectors have come up as a development tool intended to provide credit and financial services to the productive poor who do not have access to formal financial intermediation and are engaged in small and micro enterprises (Kyereboah-Coleman, 2007).

Microfinance organizations can be seen as organizations that act as intermediaries for people who save in small amounts and those who need credit facility like societies that give help to such intermediaries (Offei, 2002). Microfinance institutions are seen as a sector to improve the position of the poor. The operations of the commercial banks for some years now have not seen the need to consider the poor as an integral part of their business. The traditional banking system sees the poor people as an unsecured and commercially not viable to banking services, more importantly, the core activity which is giving out credit facility to customers to improve their business and economic well-being of individuals.

From a low profile beginning, the sector has grown significantly over the years to become a well-established sector in the country. Millions of people have made different savings with microfinance institutions (MFIs). This is based on people's intuition that the sector is reliable and viable for business activities.

The main purpose of microfinance is to break the vicious cycle of "low income, low investment – low profit" by inserting capital from outside into the economic life of the poor people. The key feature of microfinance business is bringing the bank to the poor where traditional banking system does the opposite and involves a lot of bureaucratic complications and hidden costs like travel cost.

According to Owusu-Nuamah (2004), Bank of Ghana (BOG) in the early stages of microfinance institutions to compliment the work of traditional banks in the financial services did not pursue tighter regulation, enforcement of microfinance sector. Wagner (2013) reported that microfinance was vulnerable to financial turmoil and in the global financial crises growth dropped sharply. In addition, the crises effect was more severe when institutions had been active in tapping domestic and international financial markets for funds and had operated in countries experiencing a severe crises recession.

According to Kratovac (2013), approximately 30 microfinance institutions collapsed in Ghana in 2013. The unfortunate situation of this collapse is that customers were not refunded any money that they deposited. The microfinance crises which erupted in Ghana in 2013 are the deepest crises event in microfinance so far in the country. It has widely; but falsely, been perceived as a sudden event triggered by acts of the political tension during the 2012 election petition. This research investigates the causes of the collapse of MFIs in Ghana and the impact on its customers.

1.1 Problem Statement

Microfinance symbolizes the provision of financial services adjusted to the wants of the poor such as micro-entrepreneurs, especially the delivering of credit facility in small quantity, taking small savings deposits and making payment services needed by micro – entrepreneurs and other low-income households (USAID, 2005).

The microfinance institutions available in the country are not able to address the gap in terms of credit, savings and other financial services. This is because, there is indication that a lot of microfinance institutions have folded up and others struggling to survive. This has created a lot of fear and panic in the system as the poor people who constitute a greater number of microfinance customers' base see danger looming in the microfinance sub-sector. Although, microfinance has proven over the years to be one of the ways of bridging the resource gap created in the Ghanaian economy, there are still some undesirable problems experienced against its proper execution. The unfortunate incidence is that customers who have made deposits with microfinance institutions that failed to survive are struggling to get their money back since the operators of the institutions cannot be found. The study investigates the impact of microfinance collapse on its customers.

1.2 Objectives of the Study

The main objective of the study is to assess the impact of microfinance collapse on its customers in the Kumasi Metropolis. However, the following specific objectives are to be achieved by the study:

i. The types of clients that were affected by the collapse of Microfinance Institutions.
ii. The media through which clients got to know of the collapse of Microfinance Institutions.
iii. To assess the effect of the microfinance collapse on clients.

1.3 Research Questions

The research work tries to discover responses to the accompanying inquiries:

1. What are the sorts of customers that were influenced by the collapse of microfinance establishments in Kumasi Metropolis?
2. What are the media through which microfinance clients got to know of the collapse?
3. How does the collapse affect clients of microfinance institutions?

1.4 Justification of the Study

This study will empower strategy producers define suitable systems to enhance the microfinance sub-division in the money related industry. The information to be provided by the research will be helpful to the microfinance institutions in bundling their products and services.

To the Ghana Association of Microfinance Companies (GAMC), it will aid them appreciate the type of services to which some of the microfinance institutions give attention to and enable them put appropriate measures in place to well organized the microfinance sub-sector.

To industry regulators, it will help them tighten their regulations on the microfinance sub-sector as in the case of traditional banks.

It will also serve as a reference and guidance material for others to conduct research in the microfinance sector.

1.5 Scope of the Study

The study focuses on the affected customers who do business with microfinance institutions in Ghana with particular focus on places like Central Market, Asafo, Atonsu, Suame and Manhyia which are within Kumasi Metropolis. The study seeks to establish the sort of engagement that the customers have been having with MFIs and also the effect of the collapse of the institutions on the customers. The reason for limiting the scope to places mentioned above is that they are places within the metropolis where the people have been contributing significantly to the expansion of microfinance operations and helping to give it more recognition in Ghana since its inception. Generally, this study looks at various categories of people who save with MFIs, and the impact of the collapse on customers. The period of the assessment has also been limited to 2010-2014. This is to ensure that the result reflects the current trend of the collapse in MFIs.

1.6 Limitations of the Study

Owing to time and resource constraints, a representative sample of the customers would be used in obtaining general information about the impact of collapse of MFIs on its customers. Considering the brief time needed for the fruition of the work, the contextual analysis methodology was received. Despite the fact that the clients of microfinance establishments nationwide face comparative results, there is the likelihood that a few classifications of individuals would not be truly influenced as may be the situation of others. A sample and not the entire population of customers and a section of staff of MFIs were administered with questionnaires and interviewed to obtain the primary data. In addressing this limitation, an objective headed questionnaire and interview guides were designed for the respondents in order to reduce sampling error.

Again, another limitation was uneasy access to information since not much research has been done with regards to the topic.

1.7 Organization of the Study

The research is organized into five main chapters. The first chapter presents the background of the study, the statement of the problem, objectives of the study, research hypothesis, the research question, justification of the study, scope and limitation of the study, and the organization of the study. The second chapter surveys pertinent writing on the advancement of microfinance area. Chapter three describes the methodology and profile of the study area. Here, the target population, the sample size and sampling technique, the research instrument and data collection procedure are outlined. Chapter four presents analysis and discussions of the data while Chapter five shows summary of major findings, discussion of results and author's recommendations.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews the meaning and definition of microfinance, microfinance literature and the concepts of microfinance. The thought considered are those in connection with the region of this thesis. The chapter opens with an overview of microfinance. This shows the characteristics of microfinance, the evolution of microfinance sub - sector in Ghana followed by the development and performance issues regarding microfinance concept. The discussion continues with the causes of failure or collapse of microfinance institutions and challenges facing microfinance institutions in Ghana. The chapter ends with the discussion of the impact of financial needs of poor people.

2.1 Meaning and Definition of Microfinance

"Microfinance is a way of minimizing poverty among people who are extremely poor in a society. It aids them to raise their income, adapt to the habit of savings and how to mitigate risk. It brings down vulnerability and it enables low-income families to transform their daily survival and think for life ahead" (Paul Wolfowitz, World Bank President, November, 2005 cited in Dixon et. al. 2007). This action engineers the relevant of Microfinance.

Microfinance, is along these lines, characterized as the procurement of an extensive variety of monetary administrations, for example, little credits, little stores, installment administrations, cash exchange and protection to the poor and low-salary families and their ranch or non-homestead endeavors.

Microfinance operations are not merely determined through a particular microfinance organizations (MFIs) which fit in to the "fresh planet" of small venture business

(Otero & Rhyne, 1996 cited in Cope stake 2007) whereas in addition a various assembly of position provide funds and supportive organizations, mainly delivery banks, which assist a lot of needy customers (CGAP, 2004 cited in cope stake 2007) referred to alongside with a rising figure like "downsizing" industrial monetary organizations (Marulanda & Otero, 2005; The Economist, 2005; Valenzuela, 2002 cited in cope stake 2007). According to Aryeetey (2008) "Microfinance organizations are made up of staffs and companies who work around comparatively little monetary operations with particular practice to assist poor families, undersized tenant farmers and possible choice which are not privileged to formal finance structure. They might be casual, semi – formal or established monetary liaisons."

The strong emotion for microfinance has created a sudden increase in the number of microfinance institutions in the developing world. The 1997 microfinance summit however, Stimulated by an accord reached 100 million of the earth's poorest families with credit. Debatably, the hold up for microfinance presently is extra prevalent than one different sole instrument for battling earth's neediness. The Consultative Group to Assist the Poorest (CGAP) (the apex association of international donors who support microfinance) take into consideration microfinance as "a strong weapon to battle neediness which can assist low-income households to increase returns, improve upon their property, and protect themselves distinct from outside surprises (CGAP, 2004). The microfinance drive has been jointly acknowledged and strengthened through a large range of intellectuals, key established monetary organizations so much as the World Bank, and established professionals (McIntosh and Wydick, 2005) Mahjabeen give an account that microfinance organizations increase returns and consumptions level of families, bring down revenue inequality and improve well-being.

2.2 Characteristics of Microfinance

Microfinance provides the low-income households with the opportunity to have access to financial and non-financial services, in order to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. 'The introduction of Microfinance was to help the poor clients and micro-entrepreneurs gained access to small credit in order to raise income for the low-income families.', that is, they can repay, both principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a branch of banking industry has created financial products and services that together have enabled low-income families to become clients of a banking intermediary. The characteristics of microfinance products include:

- Small amounts of credit and savings.
- Short-terms loan (usually up to the term of one year).
- Payment plan to allocate for frequent installments (or regular deposits).
- Portions to provide food for both foremost and interst.
- Interest rate on Loans paid by clients is higher than commercial bank rates but lower than loan-shark rates, which reflect the labour-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time.
- The microfinance operations permit clients easily to transact business and give the operators to have better understanding of the clients in order to know their financial and social status.
- Easy to apply for a credit facility than with the commercial banks.
- Loan processing period is short, (between the completion of the application and the disbursement of the loan).

- Customers are given the chance to get to consistent credit if past advances are paid on time.
- Clients with higher credibility get higher amounts for subsequent Loans.
- The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.
- Microfinance Institutions do not require collateral before loans are processed but based on simple cash flow of clients.

2.3 Evolution of the Microfinance Sub-Sector in Ghana

The idea of microfinance is not a fresh concept in Ghana. Before, reserve funds and smaller scale credit from people gatherings inside of the structure to bolster the poor to begin organizations or cultivating endeavors. Accessible confirmation proposes that the first credit union in Africa was founded in 1955 in Ghana by Catholic ministers from Canada. Susu is one of the microfinance plans in Ghana, which began in Nigeria before it was extended to Ghana in the mid twentieth century (Asiama & Osei, 2007).

The microfinance sub-segment has shot up and advanced into its present state on account of different money related industry arrangements and projects attempted by diverse governments since freedom. Among these are:

- Credit sponsorship gave in the 1950s;
- Establishing the Agricultural Development Bank in 1965 especially to understand the money related needs of the fisheries and agrarian sub-division;
- Arrangement of Rural and Community Banks (RCBs) and the presentation of regulations, for example, business banks being obliged to set aside 20% of

aggregate portfolio, to urge loaning to farming and little scale commercial enterprises in 1970s and mid 1980s;

- Developing from a controlling budgetary framework to a casual framework in 1986;
- Announcement of PNDC Law 328 in 1991 to allow the arrangement of different gatherings of non-bank budgetary organizations, including investment funds and advances organizations, and credit unions.

There are three general classifications of microfinance foundations. These are:

- Formal suppliers, for example, country and group banks, investment funds and credit organizations, and in addition some advancement and business banks;
- Semi-formal suppliers, for example, cooperatives, credit unions and money related non-legislative associations and such as cooperatives, credit unions and financial non-governmental organizations (FNGOs);
- Casual suppliers, for example, clubs and susu gatherers, pivoting and aggregating investment funds and credit affiliations (ROSCAs and ASCAs), moneylenders, merchants, and different people. As far as the administrative structure, rustic and group banks are organized under the savings money Act 2004 (Act 673), as funds and advances organizations are right now organized under the non-bank monetary establishments (NBFI) Law 1993 (PNDCL 328)

2.3.1 Various Categories of Microfinance Institutions in Ghana

(i) Rural Banks

Rural Banks are a piece of banks which are possessed and oversaw by inhabitants in a community. They are enrolled under the organization's code and are authorized by the Bank of Ghana to take part in the matter of keeping money, they are not permitted to open branches but instead to open organizations, they are allowed to work inside of their catchment territories. Their operations are primarily with the end goal of activating stores, the basic operations of country banks are the assembly of investment funds and giving out credit offices to commendable clients in their territories of operation. It is likewise the belief of the national bank that through their monetary intermediation parts, provincial banks will go about as substance for financial change in the country piece of Ghana.

(ii) Savings and Loans Companies

Savings and Loans Companies (S&Ls) are store taking money related foundations directed by the Bank of Ghana under the non-bank budgetary establishment, with the minimum capital prerequisite much littler than business banks yet over that for rustic and community banks.

The presentation of the non-bank money related foundation law sprang quickly and the change of some monetary non administrative associations (FNGOs) into savings and loans organizations working in urban and peri-urban regions in the nation.

Savings and Loans organizations help generally the financial dynamic easygoing unbanked populaces and give customized items to suit this gathering of the populace. They are obliged to business banks, for the most part assembling store, procurement of credit to low pay customers and SMEs, cash exchanges and monetary education. Savings and loans companies exploit microfinance policies to give assistance to most of their clients in the peri-urban areas with an average Loan size greater than the other class of microfinance institutions.

(iii) Credit Unions

Credit union is a thrift institution. It can also be considered as a financial institution that concentrates on giving the banking and lending needs of its members. These institutions are also structured to care for the needs of customers, not businesses, and are different by their ownership structure and their "common bond" membership requirement. Majority of them are relatively small.

A credit union is co-operative, nonprofit depository financial institution owned and controlled by its members who have a common bond, and operate for the purpose of promoting thrift, providing credit at reasonable rates and providing other financial services to its members.

Credit unions in Ghana are allowed to accept deposits and offer credit facility to their members. They are registered by the Department of Co-operatives as co-operative thrift societies in Ghana. The Canadian Catholic Missionaries founded Credit Union in Ghana in 1955 in the Northern part of Ghana as the first Credit Union. Credit unions have a recognized association generally referred to as CUA. The association serves as a self-regulatory highest body for its affiliates.

2.3.2 Microfinance and Development

Universally, the microfinance organization has attained an unassailable growth and while the figure continues to grow, the nature of rivalry in the organization turn out to be a challenge since the viability of these organizations is extremely contested. According to McIntosh et al (2004), Petersen and Rajan (1998), Marquez (2002), Hoff and Stiglitz (1998), the welfare of microfinance is worn with rising contention in the industry. On the other hand, the partial rivalry can end up in relentless setback for industry expansion. However, some intellectuals and strategist advice that heightened rivalry could guide MFIs to develop their work, or discontinue their target of the low-income households (T.D. Olsen, 2010).

Studies have proved that different nations have begun joining microfinance to their poverty alleviation strategy.

Poverty alleviation is one of the basic ideals that put in the picture for economic invasions in third world nations, as well as Ghana; one of the measures of alleviating poverty in the midst of people is to make loans within reach of the poor. For the past decades, universal banks have been unwilling to spread loans to the less endowed people since such operation towering risk, as such citizens need money in little quantity that the universal banks treasure unlucrative. Microfinance is meant for providing small credit and another monetary services to the poor, is frequently noticed just as an important invention about the past 25 years in conditions of ways of getting close to the disadvantaged and helpless. (Montgomery and Weiss, 2006).

2.3.3 Microfinance and Performance

The basic goal of every institution is to progress in its enactment. Hence, the knowledge of its assessment and submission of varied composition grants certain complications. This complication lives in the fact that the "idea of performance" itself does not contain a general definition. The idea had for a lengthy period been trim down to its monetary capacity, at the moment with several institutional changes, enactment has much structures. As microfinance institutions are looked at mostly as mechanism of societal transformation, their enactment has been frequently distinguished by non – financial existing conditions. The idea of societal enactment appeared to have dwarfed the aging of monetary condition of the particular organizations (Pankaj and Sinha, 2010). It appears this is due to the marking and mutual opinion of MFIs as not-for-profit institution. Whereas, the term sustainability of any industry ideal count on as greatly on the monetary sustainability notably as rivalry has turn out to be very combative.

2.3.4 Social Performance in Microfinance

Converse to monetary performance, societal performance measurement is rather something fresh (Hashemi, 2007). Recently, efforts have been made to join appraisal of societal performance into MFIs managerial structure have been advanced (Hashemi, 2007). According to Foose and Greenberg (2008) assert that various institutions have individually promote policies and apparatus for reviewing societal performance with their self structures and degrees of facts. Whereas, no extensively principles set apart for societal performance reporting stay at that time.

The societal performance of an institution (whether a private-for-profit firm, cooperative or NGO) include the affairs of the institution with its customers and with other shareholders (Zeller et al., 2003). Societal performance is not the same as societal encounter, namely, the variation in well-being and eminence of living (in all its dimensions) in the midst of customers and non-customers (and the wider local, national and global community) due to the operations of an institution. Afterwards the Structure Conduct Performance (SCP) example of industrial institution, the encounter of an institution on socio-economic and atmospherically enactment pursue from its planning, ways and performance, is influenced and/or familiar by the peripheral setting of the institution (Zeller et al., 2003).

Therefore, social (and economic) performance profits (and economic) encounter. This basically suggests that the structure of societal performance includes examining the structure of an institution (i.e. mission, ownership, management, principles, relation to and care for its staff) and its actions in the market, local and massed neighborhood (services, products, markets and other behavior, other relations with clients and other stakeholders, community and social/political organizations).

In recent past, a mutual agreement about the definition of societal performance (SP) by a business-wide task force was realized. Societal performance is defined as the effective change of a MFI's social assignment into action, this in line with established societal standards. These standards made up of growing outreach, beating financial and community state of customers and enhancing community duty of MFI towards customers, employees and the community (Hashemi and Anand 2007).

2.3.4.1 Social Performance Conduit

Foremost, the social performance conduit denotes the study of the societal goal of the MFI. These organizations are to build positively that their ideals are in any case well-defined and validate to societal goal. Additionally, essential structure and actions are measured center on their expedient to achieve the specified societal objectives. The third point is the production step that measures the outreach of MFIs and reviews the expedience of produce to achieve their wants. The next step measures the return and fortifies that customers are refining their social and economic state. The last stride measures the meeting that denotes the development which can be related to the participation in the microfinance program (Hashemi, 2007).

The idea of societal performance makes a claim to every MFI regardless of the particular objective and institutional type. Thus, microfinance contributing loans and savings services.

2.3.5 Financial Performance in Microfinance

Empirical evidence of a country like Cameroon emphasized on an important subject in the works on microfinance to contract with the monetary performance of microfinance programs. Within the business, monetary performance is detected from the perspective of microfinance viability. Providing microfinance is an expensive business due to huge transaction and the value of information. Presently, a huge number of programs still rely upon supports to meet huge value that is, they are not yet sustainable. The viability of the loans programs did not obtain considerable concentration retrieving monetary services so the women that were attended to are often cheeked as another basis. Though complicated to check, deepness of neediness is a worry because the low-income households face the highest access drawback. Cited by Solstice (2012).

2.4 Causes of Failure/Collapse in Microfinance Institutions

Empirical evidence of countries like Nigeria, Zambia and particularly Ghana has indicated some of the causes of microfinance collapse. In spite of the fact that several studies (example, Waweru, 2007; Ghartey, 2007; Bogan, 2012) have been conducted on MFIs growth and sustainability, there appears to be limited studies into the impact of overtrading on MFIs sustainability. Overtrading in MFIs occur when they expand their operations too quickly or aggressively by opening up new branches in hopes of increasing profits by expanding customer base and attracting more deposits (Lasantha, 2012; Wikipedia, 2014). This sharply reduces working capital level, as funds are misapplied by financially undisciplined MFI mangers that are ignorant with regards to reactive and ineffective risk management techniques, into setting up new operations that involve over – investment in fixed assets (Boateng & Boateng, 2014; “causes of overtrading”; 2014).

Owusu-Nuamah (2014) buttressed this point by noting that MFIs misapply working capital when they open up new branches, which required diversion of working capital to complete. Thus, MFIs are rendered unable to meet depositors' withdrawal requirements timely and on-demand because of insolvency. Such situations create the attendant problems of panic withdrawals that may cause MFIs failure/collapse.

2.4.1 Overtrading As a Cause of MFIs Failure

Inadequate working capital is considered as a symptom of overtrading, and it impedes growth of microfinance programs (Makarfi & Olukosi, 2011); Lasantha, 2012; 'Causes of overtrading", 2014).

Another source ("Financial Ratios and the Problem of overtrading", 2014) on overtrading has also added emphasis to the above sources by noting that overtrading occurs when the operational level of a business is such that the amount of working capital is inadequate to support business commitments. For example, the business might have insufficient finance to fund the level of trade receivables and inventories essential for the level of sales revenue which it is achieving. This condition is generally a reflection of a poor level of financial control over the business, and they place in a number of business environments, among them are (a) young and growing businesses which fail to prepare sufficiently for the rapid increase in demand for their goods or services, (b) businesses in which the managers might have misjudged the level of supposed sales demand or have failed to control escalating project costs, (c) the result of a fall in the value of money (which, according to Fitch Rating Agency was the result of Ghana's current account deficit increase to 12.3 percent of GDP in 2013, up from an average of 5.7 percent in the two years prior to the 2012 election – related fiscal blowout), causing more finance to have to be committed to inventories and trade receivables, even in which there is no expansion in the real volume of trade, and (d) in which the owners are not able to inject further funds into the business themselves and/or they cannot convince others to invest in the business.

Whatever the reason, the problems that they generate must be solved quickly if the business is to carry on over the longer term. Overtrading leads to liquidity problems, such as exceeding borrowing limits, or slow repayment of borrowed funds and trade payables. It can also result in suppliers being reluctant to supply further goods or services, which makes it difficult for a business to meet its customers demand. The managers of the business may be forced to focus all their attention to dealing with instant and pressing problems, like sourcing for funds to meet interest charges that are due or paying wages. This makes longer - term planning difficult because managers spend their time going through one crisis after another, leading to business failure as a result of its inability to meet its debt obligations.

Some studies (example, Nair & Fissha, 2010; Hayder, 2002; Bank of Ghana, 2007; Ghartey, 2007) have observed that a high percentage of MFIs fail in the first five years of operation, often as a result of overtrading and financial strain. One research (Basu, Blavy, & Yulek, 2004) observed that on average, more MFIs collapse than those that grow and expand, with approximately only 5 percent of MFIs growing from seven or less employees to ten or more. Generally, MFIs do not nourish the aspiration to corporate governance best practices (Labie, 2001). Thus, important areas of risk management in corporate governance are neglected at the expense of MFIs collapse.

2.4.2 Lack of Qualified Staff as the Cause of MFIs Failure

Makarfi and Olukosi (2011) noted that a leading cause that impedes the growth and sustainability of MFIs is lack of qualified staff. This observation is also supported by some studies (example, Asiama & Osei, 2007; Consultative Group. Against the Poor, 2009; Market Information Exchange, 2009) that suggest that lack of managerial skills, technical skills, and training primarily account for MFIs' collapse. However, Aisama et al (2007) cautioned that such failures cannot be attributed to skills and managerial incompetence alone, but other challenges also confronted MFIs' development. One study (Mukama, Fish & Volschenk, 2005) prominent that staff related issues, for example, instructive level of staff, abilities improvement of staff, and fitting staff incentive plans can antagonistically affect on the survivability of MFIs. The study further noticed that such staff related issues are likely the most reasonable of the issues that MFIs experience. For instance, instructive level of staff and aptitudes advancement of staff can be upheld by fitting incentive plans with a specific end goal to encourage enhanced nature of advance books, enhanced nature of administration to draw in and grow client base and hold existing customers. Great staff choice practices can be given impetuses through an all around organized commission plan, which thus, would prompt less deceitful practices and expanded reimbursement rates. Staff abilities update through both outer and in-house preparing may not just increment administration and supervisory agreeability, but also professionalism of staff.

As Otero and Rhyme (1994) also noted, MFIs would not be able to achieve their avowed objectives of delivering financial services efficiently to the poor in the absence of staff efforts. Batchelor (1991) buttressed this point by noting that MFIs with well-motivated staff had a better chance of sustainability than those without such staff.

In conclusion, an empirical study by Makarfi and Olukosi (2011) ranked the main factors that limit the growth or even result in the collapse of MFIs in order of severity as inadequate working capital followed by lack of qualified staff. It is quite apparent to see the relationship between inadequate funding and overtrading, as overtrading depletes funding and capital, which, in turn, can be attributed to managerial incompetency or lack of qualified staff.

Thus, this review appeared to support the fact that the major cause of MFIs collapse in 2013 in Ghana may not be limited only to overtrading and quality of staff but the combined effects of both perspectives. As Asiamah et al. (2004) cautioned, managerial incompetence alone may not account for MFIs failures. However, because assessing the merits of overtrading and quality of staff cannot be the two reasons alone as noted by Makarfi and Olukosi (2011), there is undoubtedly, room for further discussion regarding the unprecedented failures of MFIs that occurred in Ghana in 2013.

Probably, the saying is right that “the size of sheep can never be equal to the size of elephant even if it aims at multiplying its size through overeating.” This is because genetically, the sheep was never designed as an elephant. And no amount of gloating will change its size. Similarly, MFIs were never designed as commercial financial intermediaries and opening up branches and behaving like commercial banks will never make them commercial banks. Instead, MFIs, by indulging in overtrading that is borne out of lack of competences or qualified staff, only succeed in “biting what it cannot chew’ and probably that may have also resulted in their unprecedented collapses in 2013.

A business must ensure that the finance available is reliable with the level of operations to deal with the problem of overtrading. So, if a business that finds it overtrading is not able to increase its working capital, it should reduce its level of operations in line along with the finance available. Even though this might mean lost sales and lost profit in the short-term, it might be necessary to ensure business survival over the longer term.

2.4.3 External Factors

As indicated by mechanical establishment writing, the reasons for institutional disappointments can be joined with outside elements. Generally past the authority of chiefs (McGahn, and Porter, 1997; Rumelt, 1991). Devotes of this perspective differ that institutional disappointment does not demonstrate management uselessness or ineptitude. (Mellahi et al., 2002). Whilst industry studies' writing weights on inward industry elements as reason for disappointment (Tedlow, 2008). This point credits disappointment essentially to working issues inside of the firm as a result of the execution of administrators in a changing air (Barker & Duhaime, 1997 in Amankwah-Amoah and Debrah, 2010). Contingent upon this perspective, disappointment can be partnered with an absence of administrative judiciousness and disappointment of top administration (and Board of Directors) to answer. For instance, Mellahi (2005) differ that, boeard of individuals accomplish a consultative obligation as they are liable to get information and experience from their past administrative encounters (also, now and again) membership on different sheets. As per Gillespie and Dietz's (2009) meaning of disappointment, "condition of control for the disappointment is inside of the business despite the fact that the system for disappointment may include outer impacts" and happens as an after effect of "activities, or careless inaction" from chiefs. Additionally, Mallahi and Wilkinson (2004) discovered segments of top administration groups and administrative movement to be especially noticeable as for authoritative disappointment, whilst Hambrick and Mason (1984) add; an association is "an impression of its chiefs"

Mallahi and Wilkinson (2010**)** additionally see that, “side effects” of industry disappointment incorporate piece of the pie disintegration, diligent low or negative productivity, contracting basic that is money related, human, and mechanical assets, and/or loss of authenticity.

2.4.4 Methodological Flaws as the Cause of MFIs Failure

Maybe the most trademark and most broke down component when depicting a MFI is its client administration system, which consolidates a few attributes that can separate the foundations from different MFIs. Parts of this procedure can incorporate a specific configuration for the credit item offered (transient or graduated advance offering for instance); a decentralized danger appraisal approach did by advance officers who visit the customer’s place of business and assemble the family and business trade stream out request to gauge the capacity of the customer to pay an advance; and a motivation framework for advance officers, which fuses a bonus for the allowing and nature of advances. Other than these quantities, philosophies have been created in which the credit is not given independently, but rather regulated to solidarity gatherings out of thought for customers’ financial profiles, the institutional danger administration and operational costs.

2.5 Challenges Facing the Microfinance Sector

Since 1950s when government took active and greater interest in the activities of microfinance, the sub-sector has not got precise policy direction. This, to some extent has accounted for the slow-down in the progress of the sub-sector. There has so far not been a consistent move toward the way to dealing with the restrain facing the sub-sector. Some of the restrains are unsuitable organizational procedures, poor supervisory atmosphere, insufficient capabilities, improper organization and management, no golden rule set up to guide and classify beneficiaries, directing funds by MDAs, no proper coordination between the commercial banks and other financial institutions like microfinance, insufficient skills and professionalism and lack of capital. Proper organization and cooperation among shareholders including people who seek the progress of the sub-sector, government and other agencies, could help to improve the microfinance subdivision with the development of the entire financial industry.

For the most part, subsequent to the start of government association in microfinance in the 1950s, the sub-area has worked without particular strategy rule and objectives. This halfway record for the moderate development of the sub-segment, and the obvious absence of heading, fracture and absence of coordination. There has so far not been a cognizant way to deal with managing the requirements confronting the sub-part. Among the constraints are improper institutional courses of action, poor administrative environment, deficient limits, absence of coordination and joint effort, poor institutional linkages, no particular arrangement of criteria created to classify recipients, directing of stores by MDAs, absence of linkages in the middle of formal and casual monetary foundations, lacking abilities and demonstrable skill, and insufficient capital. Better coordination and joint effort among key partners including the advancement accomplices, government and different organizations, could help to better incorporate microfinance with the improvement of the general monetary area.

However, the universal banks idea toward microfinance activities doesn’t work. The principles of credit procedures and policies in universal banking need life history, physical property as collateral evidence which greater part of the micro and small business lack. The universal banks, though, contain the greater part of the industry serve/assist less than 10% of households, and place about 40% concentration to those who do good business.

It is rewarding to notice that the government has a preference for microfinance as a major tool to reduce poverty and help generate capital for the low-income households. It can be recognized the major function individuals and countless number of organizations can play to make sure we achieve this national agenda in order to achieve the MDGs and also realize our dream of becoming middle income country by the year 2015. In this case the government must speed up the rate of transforming the microfinance sector in order to discharge it's full ability for accelerated growth and poverty reduction.

In conclusion, whilst the commercial banks have a proper regulatory structure, and are licensed by Bank of Ghana, there is the need to extend to the microfinance sector a proper regulatory framework to help improve and sustain the subdivision.

The main challenges that the industry face are discussed below:

(i) Institutional Arrangement

The shareholders in the subdivision play varied functions which are likely to be supported. With unavailability of precise direction of operation, the functions and duties of shareholders presently connect in some cases. The connection is because of the fact that the institutional and societal hierarchy and reporting relationships among all the shareholders are not obviously well-defined. Universal banks could play more and more functions. There is the desire to obviously define relationship and functions to improve efficient execution and delivery of services.

(ii) Boundaries and Principles of Microfinance

Destitute individuals get from casual money loan specialists and recovery with casual authorities. They get advances and stipends from foundations.

They purchase protection from state-possessed organizations. They get stores exchange through formal or casual settlement systems. It is difficult to recognize microfinance from comparative exercises.

(iii)Capacity Building and Funding for the Sector

To advance the sub-area, the different partners sort out preparing projects and exercises with the perspective to updating the human capacity in the business. By the by, the staffing and competency level being accomplished with these preparation projects is still beneath what is wanted. In this way, the human limit of some key partners and organizations including MASLOC, GHAMFIN, and MFIs, pertinent Ministries and specialized administration suppliers and so forth should be improved for microfinance operations. The and incomprehensible nature of preparing projects has additionally likely hampered the accomplishments of the anticipated increases for the sub-segment, as the defect in the human limit of the considerable number of partners may have had an undulating impact on the governance and structure of the business. Besides, the present microfinance Apex bodies do not have a sufficient framework of in-house mentors and/or facilitators and also in-house observing and assessment units to persistently measured advancement of their exercises reliably after some time. Infrastructural limit in the sub-area is yet to be created around a coordinated and all encompassing logistical backing and inside operating frameworks. Subsidizing for the sub-division has been from three sources: the establishments themselves, government, and improvement accomplices. Firstly, accessible stores have not completely addressed the issues for creating and extending the sub-part; and. Also the changing sources accompany their conditions, and bend the business sometimes.

This is thought to be a requirement for focal microfinance trust to which MFIs can apply for on-giving and/or limit building bolster, expanding on experience, for example, the Training Fund under the Rural Financial Services Project.

(iv) Credit Delivery and Management

As of late, techniques for the conveyance of credit are not adequately fluctuated or successful, and hence are unequipped for totally taking care of varying requests of the business sector and distinctive gatherings of customers. There are no structures for ordering and advancing a percentage of the developing microfinance establishments in the semi-formal and casual sub-divisions in conformance with their working limits and capacities. The fundamental objective of microfinance is that of giving cash-flow to poor people. Inaccessibility of adequate and tried and true data on effort as far as its profundity and broadness stays a standout amongst the most threatening in the sub-division. This inaccessibility of information has influenced focusing of customers and inevitably destitution lessening.

(v) Targeting the Vulnerable and the Marginalized

Individuals with handicaps and debilitations don’t have items and administrations intended to address their issues furthermore are not sufficiently served by existing microfinance subsidizes and administrations. This objective gathering specifically could profit by correlative aptitudes preparing projects. The current aptitudes preparing and financing plans for ladies don't appear to be market-driven.

Accordingly, particular administrations and items that objective ladies for business enterprise improvement to empower them participate in financial exercises and turn out to be more self-hesitant should be more cognizant. Youngsters matured 15-24 years represent around 33% of the population of Ghana and constitutes over a large portion of the unemployed population. There is a requirement for uncommon microfinance, allow and preparing projects that objective the adolescent for entrepreneurial advancement.

(vi) Data /Information Gathering and Dissemination

For the most part, there is scarcity of information on microfinance organizations, their operation and customers in the nation. Ways to deal with and philosophy for information and information gathering at the national level are not uniform, making it hard to midway screen advancement of the sub-area. The endeavor to build up a national information bank on microfinance is yet to be completely figured it out. There is an absence of very much characterized reporting framework by both the administration and creating accomplices concerning their mediations. The result is deficient information base for choice making and arranging. At the institutional level, information/information social occasion and spread are powerless inside and between organizations. The absence of normal benchmarks, techniques for measuring and information sharing further represses the execution of the sub-division

Absence of sufficient and solid data on effort regarding its profundity and expansiveness stays a standout amongst the most overwhelming in the sub-area. This absence of data has influenced focusing of customers and ultimate destitution decrease.

Regulation crosswise over diverse sorts of microfinance establishments and items, there is a need to adjust allowing proceeding with development of a mixed bag of organizations giving microfinance items and administrations with the need to ensure investor' trusts, give sufficient data and insurance to purchasers, and direct extension and regulation of distinctive sections of the business. Microfinance establishments in this class face inflexible administrative and supervisory frameworks that present a few difficulties for item creativity, outreach and at last the execution of the organization. There is absence of all around determined rules for operations among peak bodies in particular, CUA, ASSFIN and helpful board. This prompts ungraceful exercises and constantly hampers the execution and effort of their part institutions.

(vii) Collaboration and Coordination

There is no national body which is in charge of organizing all exercises connected with microfinance, nor arrives a discussion for dialog among partners on strategy system issues. Thus, there is absence of intelligible methodology, fracture, duplication and deficient coordinated effort between and among MDAs, MMDAs, developing accomplices, administration suppliers, experts and end clients.

In such manner, the part of GHAMFIN as an umbrella body for microfinance zenith establishments, and also their part foundations, should be fortified to guarantee the exchanged of best practices and setting of guidelines for the business. The current institutional structure does exclude all experts and administration suppliers, and should be tended to.

Taking everything into account, the potential economic advantages of supportable microfinance in Ghana are convincing, and its potential impacts on the improvement process can't be downplayed. This requires an all encompassing methodology, as talked about to encourage the advancement of the microfinance sub-area and along these lines unleash its potential for quickened development and improvement.

2.6 Financial Needs of Poor People

In developing economics and particularly in the rural areas, many activities that would be classified in the developed world as financial are not monetized; that is money is not used to carry them out. Almost by definition, poor people have very little money. But circumstances often arise in their lives in which they need money or things money can buy.

In Stuart Rutherford's recent book "the poor and their money" he cites several types of needs:

- Lifecycle needs: such as weddings, funerals, childbirth, education, homebuilding, widowhood, old age.
- Personal emergencies: such as sickness, injury, unemployment, harassment, or death.
- Disasters: such as fires, floods, and man-made events like war.

- Venture opportunities: extending a business, purchasing area or hardware, enhancing lodging, securing an occupation (which obliges paying an expansive pay off) and so on.

Needy individuals find imaginative and frequent community oriented approaches to address these issues, basically through making and trading distinctive types of non-money esteem. Regular substitutes for money shift from nation to nation however commonly incorporate domesticated animals, gem dealers and precious metals.

As Marguerite Robinson portrays in the microfinance transformation, the 1980s showed that “Microfinance could give expansive scale outreach productivity”, and in the 2000s, the microfinance industry target is to fulfill the unmet request on a much bigger scale and assume a part in lessening neediness.

While much advance has been made in building up a suitable, business microfinance division in the couple of decades, a few issues remain that should be tended to before the business will have the capacity to fulfill huge overall interest. The deterrents or difficulties to building a sound business industry include:

- Unseemly benefactor support
- Lack of foresight and administration of store taking MFIs
- Few MFIs that address the issues for funds, settlements or protection
- Lacking administration ability in MFIs
- Authoritative wasteful

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The methodology adopted and used for the research has been discussed in this chapter. These include the research design, sampling, data collection and analysis techniques.

3.1 Research Design

In line with the objectives of the study, and accompanying research questions, the survey approach was used by the researcher in conducting the research and data was collected from people within Kumasi Metropolis who were customers of the 'Microfinance' schemes. The approach basically focused on areas in the Kumasi Metropolis where MFIs mostly collapsed in order to gain more insight into how the customers have been affected by the situation.

Since the study conducted was exploratory (necessitates personal contact), questionnaires were prepared and giving out which enable the researcher to gather data for analysis.

The questionnaire design was employed to find answers to the research questions.

3.2 Population and Sampling

The target population for this study was focused on people who saved with collapsed Microfinance Institutions in the Kumasi Metropolis.

The researcher purposively considered respondents from the metropolis where MFIs were mostly collapsed. The sample frame for the study was mainly customers in the suburbs like Atonsu (Where Lord Winners Microfinance collapse), Asafo (Where

Noble Dream Microfinance collapse), Manhyia (Where Royal Winners Microfinance collapse), Krofrom (Where Eden Microfinance collapse) and Buokrom (Where Trust Deson Microfinance collapse).

3.3 Sample Size and Sampling Technique

In designing the study, the researcher considered the sample selected from the population to answer the research questions and to meet the research objectives. In order to obtain true results for the research, the researcher considered people who saved and invested their monies with the MFIs.

The sampling methods that were used to select the sample from the population were purposive and convenient sampling methods. These are a non-random sampling and simple random sampling methods. The purposive sampling was chosen to ensure the right people were contacted to answer the questions. However, the convenient sampling was also chosen to ensure flexibility in data collection among the customers.

A sample size of 350 was selected for the purpose of the research. The sample size was selected based on a confidence interval of ±5 and a confidence level of 95%.

3.4 Source of Data

The information and materials used for this study were assembled from both primary and secondary sources.

Primary data constituted the source of information for the research. The administration of questionnaire forms the basis of primary data. Data collected from this source focused on the class of customers that were affected with the collapse due to operating with Microfinance Institutions, the media through which they heard of the collapse as well as the major effect the collapse had on them.

3.5 Method of Data Collection

The data gathered for the study comprised fundamentally of essential data. The kind of data, their sources and the instruments utilized as a part of get-together them are examined underneath:

3.5.1 Primary Data

The researcher used primary data to collect the information through questionnaire administration to customers who had various forms of accounts with MFIs. The survey questionnaire used in this thesis was built to reflect the general and specific objectives and to answer all the research questions. The questions asked highly comprised closed ended questions. The final survey questionnaire is presented in the Appendix section of this research paper.

The data collection instrument used made it very convenient for respondents to give the information needed for the analysis. The researcher was able to physically visit three places namely Atonsu, Asafo, and Krofrom to conduct the interviews.

The flexible nature of the data collection instrument afforded the researcher the opportunity to probe some of the responses obtained.

3.6 Data Analysis

With the research objectives and questions in mind, data collected was coded and analyzed with the use of SPSS and MS-Excel. Descriptive analysis including bar graphs, pie charts, tables and cross tabulations were conducted.

3.6.1 The Chi-Square Test of Independence

The chi-square test of independence was conducted to determine whether variables used for a study are dependent.

The steps involved in this approach are first of all to state the hypothesis in a general form as below;

$H_0 =$ The two categorical variables are independent

$H_1 =$ The two categorical variables are dependent

The test statistic is then compared to the critical value. The null hypothesis is rejected given that the test statistic is greater than the critical value. Otherwise, we do not reject H_0

Guided by the chi-square test of independence, it was analyzed whether working capital was statistically dependent on the monetary base deposited by customers before the collapse.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

Guided by the research objectives, data collected from the research survey was analyzed descriptively with bar charts, tables and pie charts. SPSS and Excel were employed for the analysis since they enhance simple illustrations for easy interpretation. Specifically, the chapter assesses the type of clients affected by the collapse of Microfinance Institutions, media through which clients heard of the collapse and the effect of collapse of microfinance institutions on customers. A chi-square analysis was also done to know whether customers with high working capital strongly agreed to being affected through loss of capital after the collapse.

4.1 Types of Clients Affected By the Collapse of Microfinance in the Kumasi Metropolis

Within the Kumasi Metropolis, a total of 350 questionnaires were administered to citizens of Atonsu, Asafo, Krofrom and Buokrom which are all towns where Microfinance Institutions have been reported to have collapsed. Microfinance clients were asked to indicate basic information about them which has a bearing on the study.

In order to know whether more males or females were affected with the collapse of Microfinance Institutions in the Kumasi metropolis, the gender of the customers was probed for. Table 4.1 shows the proportion of all the respondents with respect to their gender.

Table 4.1: Table Showing Gender of Respondents

GENDER OF RESPONDENTS		
	Frequency	Per cent
Male	184	53
Female	166	47
Total	350	100

(Source: Field Study, 2015)

From table 4.1 above, it can be said that out of the 350 respondents, 184(53%) were males while the remaining 166(47%) were females. With respect to the respondents used for the survey, more males than females were affected with the collapse of Microfinance Institutions in the Kumasi metropolis. The evidence provided by this study seems to contradict one of the fundamental goals of microfinance companies in Ghana. The focus of purely microfinance concepts have been to focus on women as it forms the heart of the microfinance system.

The study statistics provided above indicates that on the average, this focus has not been achieved given that males are gradually taken over microfinance companies in Ghana, a tendency for increased income and welfare inequality between males and females.

In order to know the age group that were greatly affected with the collapse of Microfinance Institutions in the Kumasi metropolis, a question was asked pertaining to the age range of respondents. Table 4.2 shows the age distribution of the respondents.

Table 4.2: A Table Showing the Age Range of Respondents

age of respondent	Frequency	Percent
Up to 20 years	43	12
21 - 30 years	162	46
31 - 40 years	89	25
41 - 50 years	40	12
above 50 years	16	5
Total	350	100

(Source: Field Study, 2015)

Table 4.2 shows that, out of the 350 respondents, 43(12%) were up to age 20, 162(46%) were from 21 to 30 years, 89(25%) were from 31 to 40, 40(12%) were from 41 to 50 years while the remaining 16(5%) were above 50years. Comparatively, it can be concluded from the survey that about 71% of respondents between the ages 21 to 40 were affected with the collapse of the Microfinance Institutions. The implication is that majority of the youthful working class who operate with microfinance companies were affected with the collapse. It can generally be concluded that, since people belonging to this age range were the working population and hence highly depended on by the younger and older population, it is imperative that access to credits when effectively monitored can boost growth in the economy given the information gathered from the field work.

Also, a key point in knowing the respondents that were affected with the collapse of Microfinance Institutions was to find out the occupation of the respondents. Figure 4.1 illustrates the occupation of Microfinance customers.

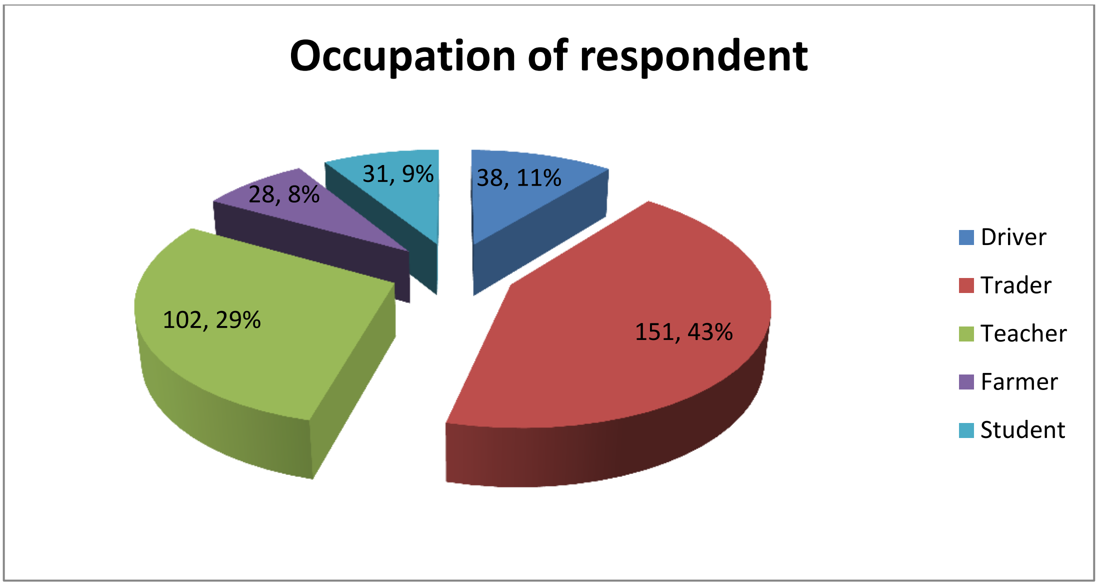


Figure 4.1: A Pie Chart Showing the Occupation of Respondents.

(Source: Field Study, 2015)

From figure 4.1 above it can be seen that 151(43%) of the respondents were traders, 102(29%) were teachers and 38(11%) were drivers. The remaining 17% had 31(9%) being Students and 28(8%) being farmers. It can be generally stated that, due to proximity, majority of the respondents that signed up with the microfinance Institutions were traders because the collapsed Microfinance Institutions were all situated at the commercial centers of the towns sampled for the study. Inference from the results goes to confirm that a whopping 83% of the respondents are in the service sub-sector of the economy with only 8% of them falling into the agriculture sector. This may be an indication that microfinance companies focus more on those in the service sector rather than either the agricultural or industrial sectors.

Since Microfinance Institutions have different financial packages it was of essence to know the financial plans that customers signed to. Figure 4.2 below shows the type of account operated by the customers of Microfinance Institutions.

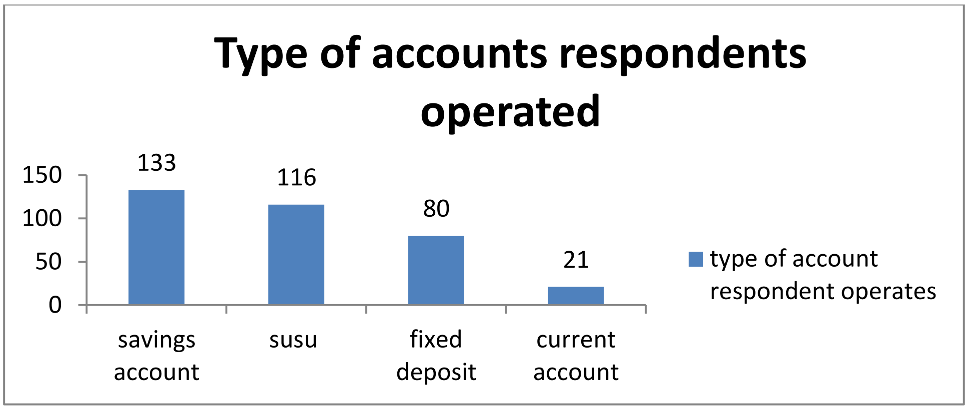


Figure 4.2: Type Of Accounts Respondents Operated.

(Source: Field Study, 2015)

As illustrated on Figure 4.2 it can be said that 133 of the respondents had savings account, 116 had Susu accounts, 80 had fixed deposits and the remaining 21 had current accounts. Loosely speaking, it can be said that over 200 of the respondents had either a savings or Susu account because majority of the respondents were workers and could save from their earnings. Again, the results do not look much of a surprise due to the door to door services of the susu operations and the ease of withdrawal of both the savings and susu accounts services of microfinance companies

With respect to total amount deposited by customers of Microfinance Institutions, they were asked to indicate on the questionnaire the monetary range their deposit fell in. This is reported on table 4.3 below.

Table 4.3: A Table Showing the Total Amount Deposited By Respondents

Total amount deposited by customer	Frequency	Percentage
¢1,000- ¢4999	84	24
¢5,000- ¢9,999	125	36
¢10,000- ¢29,999	90	25
¢30,000- ¢100,000	51	15
Total	350	100

(Source: Field Study, 2015)

As illustrated on table 4.3 above, 84(24%) of the customers had deposited from ¢1,000- ¢4999 with the Microfinance Institution. 125(36%) had deposited from ¢5,000- ¢9,999, 90(25%) had deposited from ¢10,000- ¢29,999 while the remaining 51(15%) respondents had deposited from ¢30,000- ¢100,000 with the microfinance. It can clearly be seen that majority of the respondents who were affected with the collapse of Microfinance Institutions had deposits ranging from ¢5,000 to ¢9,999.

It was also of essence to know the identify respondents' motivation for engaging in the operations of Microfinance Institutions and this is clearly illustrated on figure 4.3 below.

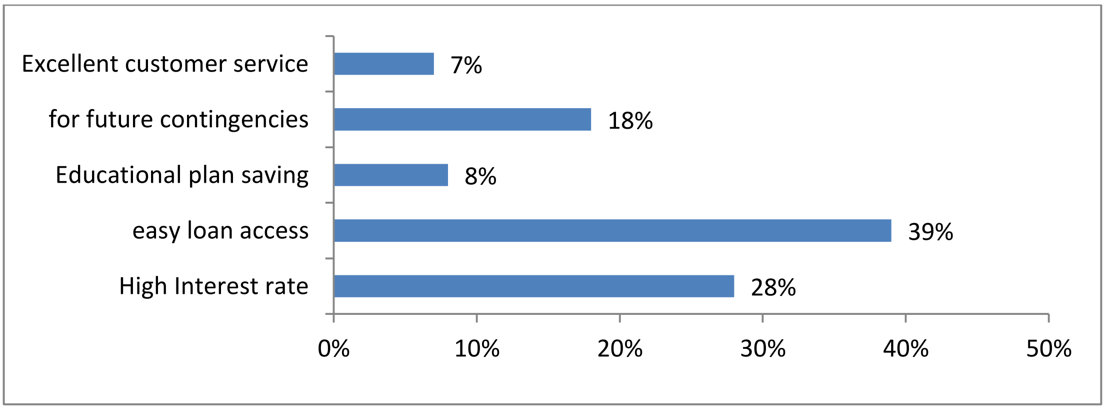


Figure 4.3: A Bar Chart Indicating Respondents' Motivation For Saving With Microfinance Institutions.

(Source: Field Study, 2015)

From figure 4.3 above it is observed that 39% of the respondents saved with Microfinance Institutions because of easy access to loans, 28% saved with Microfinance Institutions because of high interest rate while 18% saved with Microfinance Institutions for future contingencies. Out of the remaining 15%, 8% saved with Microfinance Institutions because of their educational plans while the remaining 7% saved with Microfinance Institutions because of excellent customer service. Generally speaking, majority of the respondents saved with Microfinance

Institutions because of easy access to loans since most of them were traders and would want to expand their business with time. It also goes to affirm that microfinance companies are making thrives at their target groups in their attempt at alleviating poverty among the poor and less privileged. Given the information above, effective management of MFI's will enhance the entire growth patterns of the economy in the areas of education, business and other social-economic factors.

From the above analysis it can be seen that Microfinance customers who had been affected by the collapse and interviewed for the study were mostly males from 21 to 30 years who had trading as their major profession and had deposits ranging from ¢5,000 to ¢9,999.

4.2 Media through Which Clients Got To Know Of the Collapse of Microfinance Institutions

Another significant objective that the research examined was the media through which clients got to know of the collapse of the Microfinance Institutions in Kumasi. Presented below is a pie chart that clearly illustrates the cumulative responses of clients that were sampled for the study.

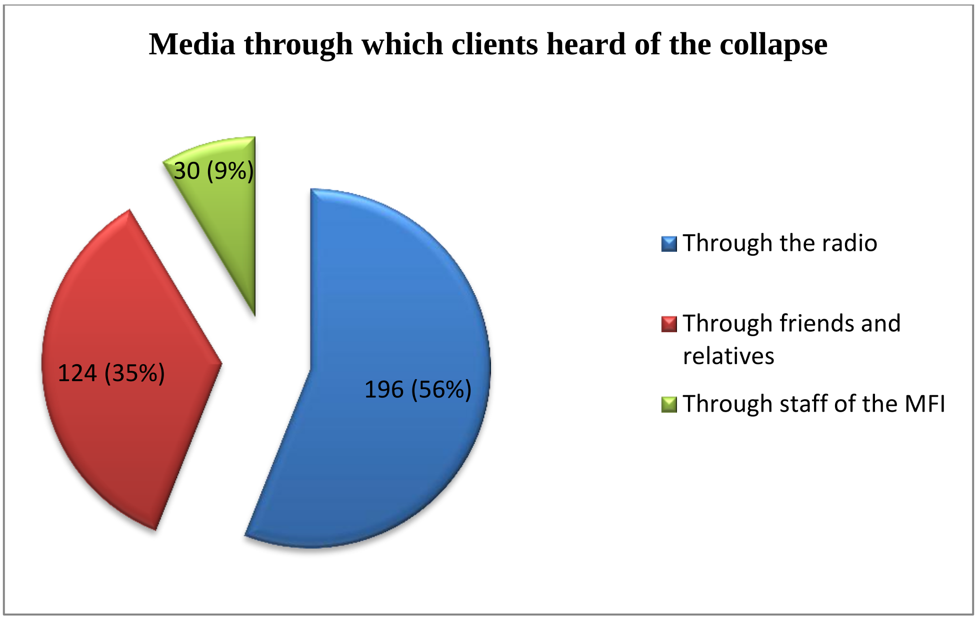


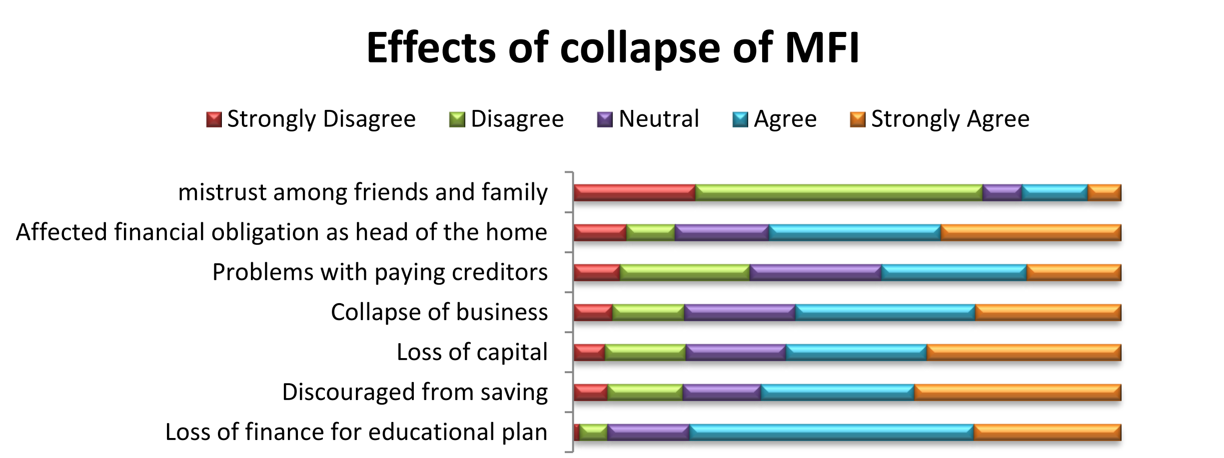
Figure 4.4 A Pie Chart Showing The Media Clients Heard Of The Collapse

(Source: Field Study, 2015)

From figure 4.4, it is shown that out of the 350 clients that were sampled for the study, 196 heard of the collapse of Microfinance Institution from the radio, 124 through friends and relatives while the remaining 30 heard of the collapse from staff of their Microfinance Institutions. The results reveal that the importance of radio in information dissemination in Ghana cannot be overemphasized. As indicated in the work of Familusi et. al., (2014), radio is ranked as the most popular means of disseminating information regardless of continent. The results also reaffirm the cross boarder characteristic of radio. According to Omenesa (1997), radio is able to transmit information to audience no matter where they may be and overcomes challenges posed by road, light, water, topography, time, illiteracy and socio-political exigencies. Inference can be made from the information obtained from the study about how critical the role of the media is in the activities of microfinance institutions in Ghana.

4.3 Effects of Microfinance Collapse on Customers

Another important objective of the study was to assess the effects of the collapse of Microfinance Institutions on their customers. This was of essence because microfinance companies emerged to help the poor in accessing productive resources through financial services like credit creation. It is in this vain that this study evolves to ascertain the exact effects of the collapse of microfinance companies on the main stakeholders; the poor. Figure 4.8 below illustrates the effects of the collapse on customers' welfare.



	Loss of finance for educational plan	Discourage d from saving	Loss of capital	Collapse of business	Problems with paying creditors	Affected financial obligation as head of the home	mistrust among friends and family
Strongly Disagree	4	22	20	25	30	34	78
Disagree	18	48	52	46	83	31	184
Neutral	52	50	64	71	84	60	25
Agree	182	98	90	115	93	110	42
Strongly Agree	94	132	124	93	60	115	21

Figure 4.5: A Stacked Bar Chart Showing Effect of Collapse of Microfinance

(Source: Field Study, 2015)

Analyzing from figure 4.8 above, it can be said that customers were in one way or the other affected with respect to the collapse of their microfinance institution. 94 out of the 350 customers strongly agreed to have lost finance for their educational plan, 182 agreed that they had lost finance for their educational plan while 52 were neutral. However, 18 disagreed and 4 strongly disagreed that they had not lost finance for their educational plan.

Also, 132 customers strongly agreed that they were discouraged from saving while 98 agreed that they were discouraged from saving. Out of the remaining 120 customers, 50 neither agreed nor disagreed that the collapse of their respective Microfinance Institution had any impact on their decision to save. On the other hand, 48 did not agree while 22 were strongly against the fact that the collapse had affected their decision to save.

Loss of capital was one of the likert items and out of the 350 respondents, 124 strongly agreed, 90 agreed, 64 neither agreed nor disagreed, 52 disagreed and the remaining 20 strongly disagreed that the collapse of Microfinance Institution had made them loose capital.

With collapse of business as one of the effects of the collapse of Microfinance Institutions, 93 respondents strongly agreed, 115 agreed, 71 neither agreed nor disagreed, 46 disagreed and 20 strongly disagreed that the collapse of the Institution had made their business collapse.

Furthermore, 60 customers strongly agreed that they were having problems paying their creditors while 93 agreed that they were having problems paying their creditors. Out of the remaining 197 customers, 84 neither agreed nor disagreed that the collapse of Microfinance Institution had affected their ability to pay their creditors. On the other hand, .38 did not agree while 30 were strongly against the fact that the collapse had affected their ability to pay off their creditors.

115 out of the 350 customers strongly agreed to the likert item that the collapse had affected their financial role as head of their home, 110 agreed that they were facing challenges of living out their financial duties while 60 were neutral. However, 31 disagreed and 34 strongly disagreed that their role as bread winner of their homes had been affected.

Since some people open joint accounts and also by borrowing money from friends and family, it was necessary to know if the collapse of Microfinance Institution had any effect on the relationship between friends and families with joint accounts. From figure 4.8 above, it can be observed that, 21 respondents strongly agreed, 42 agreed, 25 neither agreed nor disagreed, 184 disagreed and 78 strongly disagreed that the collapse of Microfinance Institution had any effect on their relationship with friends and family.

In order to assess the levels where majority of the respondents fell with respect to the likert items that represented the effects of the collapse, a summation of the levels were done for both the negative and positive side. Since there were customers who neither agreed nor disagreed with respect to the effect variables, the neutral counts were divided into two and shared on to the agree and disagree sides of the likert scale. Figure 4.9 shows the likert scale levels with respect to whether customers were on the agreeing or disagreeing level.

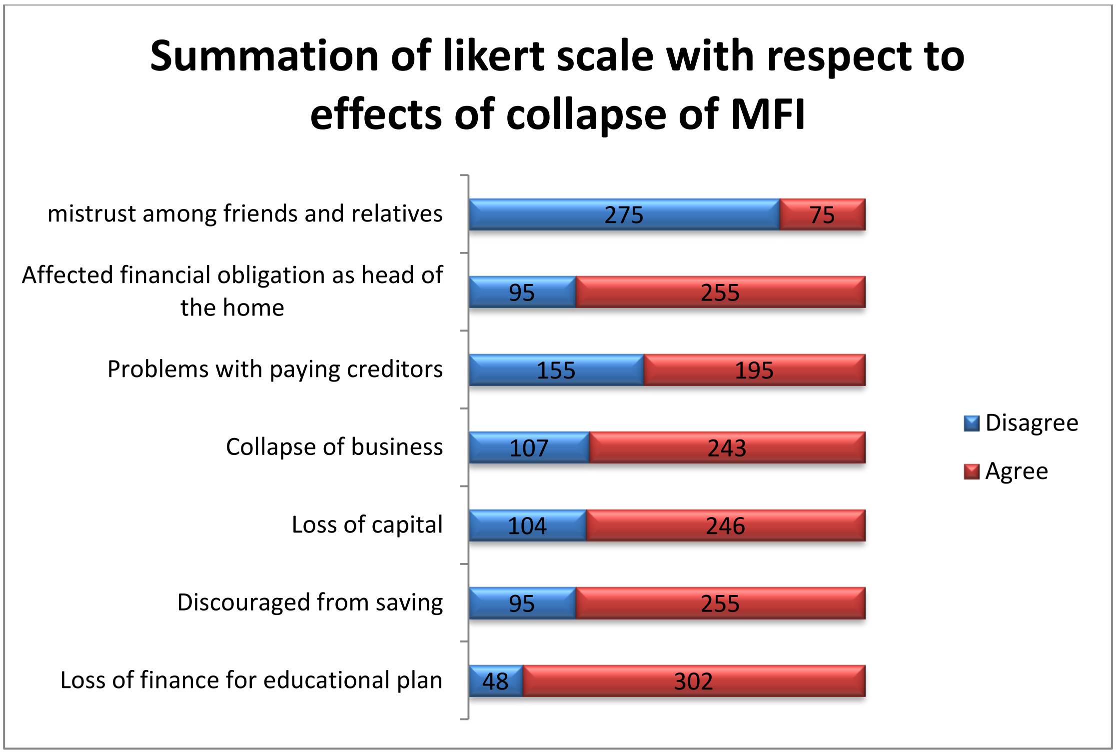


Figure 4.6: A Stacked Bar Chart Showing Effect Of Collapse Of Microfinance

(Source: Field Study, 2015)

From figure 4.9 above, it can be observed that in as much as some customers disagreed to the variables of effect with respect to the collapse of Microfinance Institution, majority of the respondents agreed to the likert items of impact of the collapse.

302 out of the 350 respondents agreed that the collapse had an effect on their finance of educational plan while 48 disagreed.

In as much as 255 respondents agreed to the fact that the collapse had affected their decision to save, the remaining 95 disagreed. This development has repercussions on the capital accumulation capacity of microfinance institutions and therefore a threat to development of the poor lower income earners.

Again, 246 of the customers said they agreed that they lost capital as a result of the collapse of Microfinance Institution while the remaining 104 said they did not agree to losing capital as a result of the collapse.

With majority of the respondents being traders, 243 agreed that the collapse had led to the collapse of their respective businesses while 107 disagreed to the variable of losing business as a result of the collapse of Microfinance Institution.

Also 195 out of the 350 respondents agreed that they were facing problems with their creditors as a result of the collapse while 155 said the collapse had no effect on their capability to pay their creditors.

In as much as 255 of the customers said the collapse had an effect on their financial obligation as head of their homes, 95 said the collapse had no such effect.

Lastly, 75 of the respondents agreed that there was mistrust between them and their friends and family due to the collapse while a higher proportion of 275 customers said they disagreed to the collapse creating mistrust between them and their friends and family.

In other to know the monetary effect of the collapse on traders, the 151 traders aside indicating total deposit made with Microfinance Institutions were asked to indicate the range of working capital they fell in. Using the working capital of traders who saved with Microfinance Institutions, a chi – square test of Independence was used to find out if traders with high working capital strongly agreed to the collapse of Microfinance Institution affecting them through loss of capital.

The hypothesis was formulated as:

H_0: The two variables are statistically independent

H_1: The two variables are statistically dependent.

Decision Rule: If the calculated value of the Chi-Square test is greater than the table value, we reject the null hypothesis. If the calculated value is less, then we fail to reject the null hypothesis and hence, the two variables are statistically independent.

4.4 Strong Agreement By Customers To Impact Of Loss Of Capital Due To The Collapse Of Microfinance Institutions With Respect To Working Capital Deposited By Customer

H_0: Strongly agreeing to loss of capital due to the collapse and working capital deposited are statistically independent

H_1: The two variables are statistically dependent

Table 4.4 Loss of Capital * Working Capital Cross Tabulation

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.988E2[a]	12	.000
Likelihood Ratio	184.588	12	.000
Linear-by-Linear Association	84.014	1	.000
N of Valid Cases	151		
a. 9 cells (45.0%) have expected count less than 5. The minimum expected count is .50.			

The chi – square critical value from the chi – square table is 21.0261

Since the calculated value (Pearson Chi – square) of 1.988is less than the table value of 21.0261, we do not reject the null hypothesis at a 0.05 significance level. Hence, a customer strongly agreeing to loss of capital as an impact of the collapse of Microfinance Institutions is not dependent on the working capital of traders. The collapse of Microfinance strongly impacting on traders' loss of capital is therefore not influenced by their working capital deposited in the Microfinance Institution before the collapse.

From the above analysis it can be concluded that majority of the respondents agreed that the collapse of Microfinance had impacted most especially on their ability to finance educational plans. This is because the higher number of customers (302) confirmed through the study that it constitutes one major factor where they suffered from. This doesn’t look surprising as majority of respondents constituting about 46% were between the ages of 21years to 30years and therefore with the highest propensity to pursue higher education.

Again, it was observed that traders who formed the majority group of respondents for the study strongly agreed to loss of capital as an impact of the collapse of Microfinance but this strong agreement was statistically not due to the amount of working capital they had deposited in the Institution before the collapse.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATONS

5.0 Introduction

The following study has focused on assessing the impact of the collapse of microfinance companies on costumers. This chapter therefore provides a summary of findings, recommendations which will provide a point of departure for future research and then conclusion.

5.1 Summary of Findings

It was observed that, customers sampled for the study were highly represented by males who were from the age of 21 to 30years with a percentage of 46. The sampled customers also had trading as their major occupation with 43% of the respondents being traders. The study also revealed that the savings and susu accounts were the most operated accounts with a maximum deposit ranging from ¢5,000 to ¢9,999 representing 36% of the respondents.

The study also came out with the findings that, in the Kumasi Metropolis, the main source from which clients heard of the collapse of their respective Microfinance Institutions were through the radio.

The likert scale measure suggest that with the exception of mistrust among family and relatives, majority of the respondents agreed to the likert items of effect of the collapse.

With the use of a cross tabulation it was also noticed that customers were strongly affected since the deposit range that ranked highest with respect to the customers was the same deposit range that had most of the respondents being strongly affected with the collapse of Microfinance Institutions.

With the use of chi-square test of independence and a selected case study of traders which was the major occupation of the surveyed customers of Microfinance Institutions, it was observed that a customer strongly agreeing to loss of capital as an impact of the collapse of Microfinance Institution is not dependent on the working capital of traders. The collapse of Microfinance strongly impacting on traders' loss of capital thus is not influenced by their working capital deposited in the Microfinance Institution before the collapse.

5.2 Conclusion

Microfinance Institutions are generally set up to provide financial assistance and services to the economically vulnerable category of people. In the case of Ghana, since its inception, one obvious challenge has confronted Microfinance companies; customers who deposit with Microfinance Institutions find it impossible to get back their deposits. This development motivates this study in order to know the reasons why Microfinance institutions are struggling to thrive and rampantly collapsing and its impact on the customers who mostly fall in the low income bracket of the economy.

The study used a primary data collection technique (questionnaire) to gather information from customers who are victims of the collapse of an MFI. The 350 clients were largely residents of Atonsu, Asafo, Krofrom and Buokrom where Microfinance Institutions had collapsed. The study was undertaken by employing bar charts, tables, and pie charts.

The study found that out of the sample interviewed, majority of males engage the services of MFI's relative to females.

The use of likert scale to measure the effects of the collapse on customers revealed that clients suffered from various degrees of effects with loss of capital for educational purpose recording the highest.

A chi – square test of Independence was used to find out if traders with high working capital were strongly affected upon hearing of the collapse of Microfinance Institution. It was concluded that the impact of the collapse of Microfinance Institutions is not dependent on the working capital of traders. The collapse of Microfinance strongly impacting on traders' loss of capital thus is not influenced by their working capital deposited in the Microfinance Institution before the collapse.

5.3 Recommendations

Given the findings of the study, the following sub-section discusses some policy recommendations based on the analyses in chapter four and summarized in section 5.1

It is recommended that attempts should be made towards reaching out to more women as a means of ensuring that through microfinance operations, majority of women are empowered. Such policies can be in the form of gathering details pertaining to women in the community where the microfinance company operates and then designing projects and plans that are lured towards enticing women into working with them. Given this, it is the responsibility of the companies to ensure sustainability of these policies to ensure company loyalty.

Also the formation provided above indicates that most people engage in microfinance operations to have access to loans. It can therefore be recommended that microfinance companies can design individual loan products and graduation strategies that meet the needs of women.

It is also recommended that the media especially radio stations become circumspect in the advertisement of the product and services of microfinance companies. Thus is due to the inherent ability of the media to proliferate information to all walks of life within the Ghanaian society. Aside these, it is also recommended that investigative measures by the media upon rumors of dangers of collapse of microfinance institutions will aid the Bank of Ghana, the clients of Microfinance Institutions and other stakeholders to be well informed about the actual state of affairs. This will go a long way to minimize the effect on the lives of clients.

Effective credit control measures are also recommended to ensure sustainability of microfinance companies. These measures ensure not only optimum profit and loan recovery rates but also ensure minimum interest rate as possible on loans granted to clients and thus increasing the possibility of repayment.

Lastly, strict measures and effective monitoring of the Central bank is also advised in ensuring that microfinance companies are sustainable to the benefit of the poor and the economy in general. This way, it reduces the impacts on the clients who may be the innocent victims in case of collapse.

The study also recommends that frequent visits should be made by clients of MFI's into the company where they deposit. This will develop the relationship they have with staff and also increasing the chances of realizing any challenges the organization is going through for swift action to be taken.

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APPENDIX I

QUESTIONNAIRE FOR CUSTOMERS OF THE MFIs

The purpose of this questionnaire is to gather data for the topic "Assessing the Impact of Collapse of Micro Finance Institutions on its Customers in Ghana – A Case Study of Kumasi Metropolis." Data collected would be used solely for academic purpose and respondents are assured of confidentiality of information provided.

A. BACKGROUND INFORMATION

Please tick the relevant and appropriate box (X) for each question.

1. Gender of Respondent: Male ( ) Female ( )
2. Age Group of Respondent:
   Up to 20years ( ) 21 – 30 years ( ) 31 – 40 years ( )
   41 – 50 years ( ) above 50 years ( )
3. Occupation of Respondent
   Driver ( ) Trader ( ) Teacher ( ) Farmer ( ) Student ( )
   others: Please specify ………………………………………………
4. Type of account that was operated
   Susu ( ) Fixed deposit ( ) Savings account ( ) current account ( )
   others: Please specify ………………………………………………
5. Total amount deposited/invested before the collapse
   ¢1,000- ¢4999 ( ) ¢5,000- ¢9,999 ( ) ¢10,000- ¢29,999 ( )
   ¢30,000- ¢100,000 ( )
6. Main reason for saving with Microfinance Institution
   Easy loan access ( ) High interest rate ( ) Future contingencies ( )
   Educational plan saving ( ) Excellent customer service ( )
   Others: Please specify ……………………………………..

B. MEDIA THROUGH WHICH CLIENTS HEARD OF THE COLLAPSE FROM

7. How did you get to know about the collapse
   Through the radio ( ) through friends and relatives ( )
   Through staff of MFI ( )

C. EFFECT OF MICROFINANCE COLLAPSE ON CUSTOMERS

8. With respect to the table below, please grade the level of impact the collapse of Microfinance had on you. Kindly tick [ ] where appropriate

Impact of the collapse of Noble Dream MFI	Strongly disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Loss of finance for educational plan					
Discouraged from saving					
Loss of capital					
Collapse of business					
Problems with paying my creditors					
Affected financial obligation as head of the home					
Mistrust among friends and family					

9. How much of your total deposit was your working capital if a trader

   Less than ¢4,000 ( ) ¢4,001- ¢9,000 ( ) ¢9,001- ¢20,000 ( ) ¢20,001- ¢30,000 ( ) over ¢30,000 ( )

Thank you very much for your time.

APPENDIX II

Loss of capital * Working Capital Cross tabulation							
Count							
		Working Capital					Total
		Less than ¢4,000	¢4,001 to ¢9,000	¢9,001 to ¢20,000	¢20,001 to ¢30,000	over ¢30,001	
Loss of capital	Strongly Disagree	0	0	0	7	13	20
	Disagree	0	5	32	15	0	52
	Neutral	1	54	6	0	3	64
	Agree	4	6	5	0	0	15
Total		5	65	43	22	16	151