THE FAILURE OF MICROFINANCE IN GHANA: A CASE STUDY OF NOBLE DREAM MICROFINANCE LIMITED

BY

BENJAMIN OPOKU ANTWI

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DECLARATION

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

Benjamin Opoku Antwi	………………………………	…………………
Student	Signature	Date
(PG9624013)		

Certified by:

Mr. P. K. Oppong-Boakye	………………………………	…………………
Supervisor	Signature	Date

Certified by:

Dr. K. O. Appiah	………………………………	…………………
Head of Department	Signature	Date

ABSTRACT

Micro-Finance Institutions (MFIs) play a pivotal role in the provision of services to the financially excluded population, particularly the poor and the informal sector. In spite of the anticipated and the actual role performed by the MFIs in Ghana in poverty alleviation, the industry has recently suffered nationwide collapses of some of its once vibrant institutions. Ghana has witnessed unprecedented collapses of MFIs neccessitating this research to unravel the root causes using the defunct Noble Dream Microfinance Limited as a case study. The purposive sampling technique was used to select former management staff of the company. Questionaire and interviews were used to solicit data and anlyzed using the Statistical Package for social sciences. Diversion of funds was found the highest rated factor that caused the collapse of Noble Dream Microfinance Limited. High interest rate and overtrading were the other leading causes of the company's collapse. It was also discovered that the MFI does not comply with various regulatory policies in their daily operations. The study recommended thatMFIs must ensure strict compliance with regulatory requirements. The regulator, the Bank of Ghana (BoG) in Ghana's case, has specific requirements for the operation of banking and non banking institutions, of whch MFIs are no exception. Particular requirements such as the preparation and submission of prudential reports, keeping the required reserves, exposures and even the sectors of credit administration are all crucial in ensuring growth and sustinability of MFIs in Ghana. The BoG, when furnished with such reports, would be informed and to provide intervension mechanisms to assist MFIs deal with threats of potential collapse before escalation to levels beyond control

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DEDICATION

I dedicate this work to my only parent and mum Madam Hannah Osaah and to my adorable wife and daughter, Sarah Anane Dapaah and Adwoah Osaah Opoku Antwi. You will forever live in my heart. God bless you for your support.

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LIST OF ABBREVIATION

BAM	Bank Al-Maghrib
BoG	Bank of Ghana
CEOs	Chief Executive Officers
CGAP	Consultative Group to Assist the Poorest
CSFI	Centre for the Study of Financial Innovation
CSR	Corporate Social Responsibility
EDIF	Export Development Investment Fund
ERP	Economic Recovery Programme
FSS	Financial Self-Sufficiency
GoG	Government of Ghana
MASLOC	Micro and Small Loans Centre
MDGs	Millennium Development Goals
MFBs	Microfinance Banks
MFIs	Microfinance Institutions
NAMB	National Association of Microfinance Banks
NGOs	Non-Governmental Organisations
PAMSCAD	Programme of Action to Mitigate the Social Cost of Adjustment
PNDC	Provisional National Defence Council
PRIDE	Promotion of Rural Initiatives and Development Enterprises
PZ	PRIDE Zambia
RBZ	Reserve Bank of Zimbabwe
SAP	Structural Adjustment Programme
SIF	Social Investment Fund
SMEs	Small and Medium scale Enterprises
SPSS	Statistical Package for Social Sciences
USD	United States Dollar
ZAMFI	Zimbabwe Association of Microfinance Institutions

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In 2010, five years ahead of the target date of 2015, the world reached the United Nations' Millennium Development Goal 1: cutting in half the proportion of people living in extreme poverty. While this global progress is outstanding, progress in particular countries and regions is not as strong. Globally, 1.2 billion people still live on less than $1.25 a day, and disproportionately large numbers of them live in southern Asia and sub-Saharan Africa. According to the World Bank (2015), the world's population currently stands at about 7.2 billion.

The 2010 Population and Housing Census reveals that 93.1% of the working populations are found in the private informal sector (Ghana Statistical Service, 2012). This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy.

Poverty and its associated difficulties have been high in Ghana, though Ghana was adjudged to be one of the richest countries in Sub-Saharan Africa immediately after 1957 with a per capita income of $500. Within a decade after gaining political independence, Ghana's economy went into a recession, which but for brief periods of temporary relief, continued for over two decades (Sowa, n.d.). Such difficulties make the poor vulnerable and prone to sudden shocks and long-term stress.

Reduction of poverty and its accompanying worries and improving the living standards of the governed have always been at the core of various governmental policies. In the 1980s, Ghana adopted the Structural Adjustment Programme (SAP), an initiative from the Bretton Wood institutions, to correct inherent flaws such as balance of payment problems in the system. It subsequently initiated the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD)to mitigate the social consequences (retrenchment and unemployment) of the SAP and Economic Recovery Programme (ERP).

Despite these interventions, by 1991/1992 the incidence of poverty was estimated at 52 percent (Ghana Statistical Service, 2013). Multi-dimensional approaches were therefore required to reduce poverty to the barest minimum in line with the renewed global agenda evident through the millennium declaration-MDGs. These approaches were not only required from the government's direct investment in the sectors of the economy but also through the creation of the enabling environment to propel the private sector premising on the background that the private sector is the engine of growth and structural transformation of countries' economies.

Through the enabling environment, the private sector has shown an innovative interest in investing in the economy of Ghana cutting across several sectors including education, health and finance. Under the financial sector, MFIs have been seen as one of the surest means of promoting growth and reducing poverty due to their common objective of expanding the economic opportunities available to the poor. Microfinance can help the poor to increase incomes, build viable businesses and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor to become economic agents of change.

Linked to the conception that they are useful tools for poverty reduction, MFIs have gained currency in Ghana over the last two decades through government's efforts. Under the PNDC government, the Council for Indigenous Business Association, the

National Board for Small Scale Industries and the Ghana Regional Appropriate Technology and Industrial Service were established to offer skill training and basic working capital tools for start-ups. These efforts were complemented by the New Patriotic Party government's Micro and Small Loans Centre (MASLOC), the Social Investment Fund (SIF) and Export Development Investment Fund (EDIF). All these are designed to support petty traders, businessmen and self-employed households to increase and diversify income, increase assets and to socially empower the poor especially women to contribute to economic development.

Emanating from these governments' interventions, the number of MFIs increased dramatically. They have become increasingly involved in providing financial services to Small and Medium scale Enterprises (SMEs) focused on poverty reduction and the economic survival of the poorest of the poor.

In spite of the anticipated and the actual role performed by the MFIs in Ghana in poverty alleviation, the industry has recently suffered nationwide collapses of some of its once vibrant institutions. Microfinance Institutions (MFIs) have assumed prominence as important lending institutions in the economic development process of developing countries. However, in Ghana, 2013 witnessed unprecedented collapses of MFIs, in spite of the fact that they met the minimum requirement for licensing by the Bank of Ghana (Addo, 2014).

It is against this background that this study, using Noble Dream Microfinance Limited, as a case study, examines the failure of MFIs in Ghana. The study hopes to identify the causes and effects of the failure of MFIs and to recommend practicable solutions to curb the situation before it aggravates beyond control.

1.2 Statement of the Problem

Micro-Finance Institutions (MFIs) play a pivotal role in the provision of services to the financially excluded population, particularly the poor and the informal sector. As a key strategy for poverty reduction in the developing world, microfinance has captured the imaginations of governments and donor agencies (Parveen, 2009). Supporters have argued that microfinance institutions cannot only have a major impact in the fight against poverty but can do so on sustainable basis (Mcguire & Conroy, 2000).

In many other developing countries and Ghana, microfinance institutions mainly have been treated as important development instruments in the fight against poverty and over dependency on central and local governments. Microfinance has the capacity to efficiently and effectively provide sustainable financial services to poor households who are otherwise excluded from the conventional financial systems for lack of collateral. These institutions have been useful tools in broading the economic capacity of people. MFIs have offered start-up capitals to several entrepreneurs and business men through their loan facilities. This have contributed to reducing the burden on the central government in terms of employment, credit provision and general standard of living. The MFIs have thus been seen as vital instruments in Ghana's quest to reduce poverty.

Microfinance Institutions (MFIs) have assumed prominence as important lending institutions in the economic development process of developing countries. However, in Ghana, 2013 witnessed unprecedented collapses of MFIs, in spite of the fact that they met the minimum requirement for licensing by the Bank of Ghana (Addo, 2014).

This role played by MFIs would worsen the already copious demands on the central and local governments if abandoned. This concern has raised serious issues regarding the MFIs sustainability particularly in the developing countries (Parveen, 2009).

The issue of microfinance failure should thus be a major concern to policy makers and implementers if the activities associated with MFIs are really deemed beneficial to the economic development of Ghana. This has necessitated the need to undertake studies to identify the factors leading to the recent collapses of MFIs in Ghana.

1.3 Objectives of the Study

1.3.1 General objective

The main objective of the study is to assess the fall of microfinance institutions in Ghana.

1.3.2 Specific objectives

From the general objective, the following specific objectives were set to be achieved:

1. To assess the factors that led to the collapse of Noble Dream Microfinance
2. To identify measures the company adopted to manage the situation.

1.4 Justification of the Study

This study is intended to help management of most microfinance institutions to identify the factors that might lead to the failure or collapse of their institutions and take proper precaution to prevent the occurrence of any fall. It will also help to find the effect this failure have on customers of the institutions. The government will become aware of the problems faced by most of these microfinance institutions and provide appropriate interventions to such problems. The results of the study would also be used in formulating policies to help the research and development department of selected microfinance institution. Finally, the study adds to the already existing literature in the area of microfinance.

1.5 Scope of the Study

The study is limited to the failure of microfinance in Ghana and the content focuses the factors that led to the collapse of Noble Dream Microfinance, whilst identifying measures the company adopted to manage the situation.

1.6 Limitations of the Study

The completion of this study was hindered by the following two constraints:

The availability of time for the study did not permit the consideration of all MFIs in Ghana. However it is hoped that all the problems faced are similar.

The ability to get the required information on time was another serious constraints. Perceptions of some respondents on results of information that gets out of their offices would sometimes affect responses to questionnaires for the study. Respondents will try to protect what they consider as trade secrets bothering on their activities and competence.

The results of the study have not been affected and thus are useful and credible for any purpose of evaluation and feedback notwithstanding the above mentioned limitations.

1.7 Organisation of the Study

The study is presented in five (5) chapters. Chapter one offers background of the study, introduces the study and states the research problem and objectives. Other issues covered are the scope of the study, significance of the study and limitations of the study. Chapter two offers detailed review of existing literature on microfinance and its economic impact on a nation from a general perspective. The causes and the effects of collapse of MFIs are emphasised. Chapter three details out the systematic process used in answering the research questions and an overview of the study area. That is the methodology that was employed to achieve the objectives of the study. In chapter four data gathered from respondents was analysed and discussed. Finally, chapter five covers the summary of findings, conclusion and recommendations on how to overcome the failure of most microfinance Institutions in Ghana.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter reviews the various definitions of microfinance and carves out a working definition for it. It as well conceptualizes micro financing in a theoretical framework. The chapter again, considers the global as well as the local perspectives of microfinance and finally, the challenges in the industry.

2.2 Theoretical Review of Related Literature

This section review some theoretical literature that helped to build and sharpened the conceptual focus of the study. The theoretical literature included scholarly writings (books and articles) that helped to build and sharpened the conceptual of the study.

2.2.1 Definition and Meaning of Microfinance

Microfinance is considered to be among the areas that have received much attention as regards literature publication. It has been defined in many ways by a number of researchers. Otero (1999) refers to microfinance as the provision of financial services to low-income, poor and very poor self-employed people. These financial services, according to Ledgerwood (1999), generally include savings and credit but can also include other financial services such as insurance and payment services usually using non-standard methodologies such as character-based lending, group guarantees and short term loans (Brefo, 2009).

According to Schreiner and Colombet (2001), microfinance is the attempt to improve access to small deposits and small loans for poor households neglected by banks. This means microfinance is not only the provision of financial services to the low-income, poor and very poor self-employed people but offers an opportunity for the non-bank poor households to have to small deposits and small loans.

The terms microfinance and microcredit are often used interchangeably (Robinson, 2001). The distinction that is often discussed is the dichotomy between microfinance and microcredit. However, the definition of microfinance by Schreiner and Colombet (2001) includes microcredit (small loans) as an activity of microfinance. This is clearly seen in Khawari's (2004) (Khawari, Microfinance: Does it Hold its Promises? A Survey of Recent Literature, 2004) definition of microfinance, where microfinance is defined to include the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to the poor and low-income households and their micro-enterprises. It is therefore imperative that a clear line of distinction is drawn between the two.

Microcredit has been defined as small loans (Owusu Ansah, 1999). While microcredit cannot be used as a substitute for microfinance, it is worth noting that it forms an integral part of microfinance. Among all the products of microfinance, microcredit is the most popular. It has received international attention by the United Nations when 2005 was declared the International Year of Microcredit (UNCDF, n.d.)

2.2.2 Definition of Microfinance Institution

Poverty is usually characterized by irregular and undependable income. However, the poor require access to a wide range of financial products and services that are tailored to suit their circumstances. These products and services can help the poor build assets through savings or financing income-generating activities, which can make it easier for them to manage shocks, such as medical emergencies, death, or natural disasters.

Most Microfinance Institutions (MFIs) began as charitable and/or donor-supported programs to provide sustainable financing for the poor; carried out under the auspices of non-governmental organizations (About Microfinance, 2015)

MFIs can take different forms. They could be public or private, for profit or non-profit. The public ones are usually part of governments' initiative towards poverty alleviation. A typical example is Microfinance and Small Loans Centre (MASLOC) established in 2006 by the government of Ghana (GoG) under the administration of former president John Agyekum Kuffour (Office of the President-The Republic of Ghana, 2010). The private MFIs are mostly for profit, established by individual businessmen or groups (Attefah, Mintah, & Amoako-Agyeman, 2014). The non-profit MFIs are normally Non-Governmental Organizations (NGOs) with donor funding (Lauer, 2008).

MFIs are of essence due to the problem that low-income people pay high costs and sometimes rely on insecure, unpredictable, and unscrupulous options to access basic financial products and services. This is the more reason why the financial inclusion movement is striving to encourage the delivery of a full range of financial products at fair prices and without the risks poor people face today (CGAP, 2015).

2.2.3 The Historical Background of Microfinance

The concept of microfinance is not new. Savings and credit groups have operated for centuries. These include the "susu" in Ghana, " committee" in India, "tanda" in Mexico, "arisan" in Indonesia, "seettuva" in Sri Lanka, “tanomoshi-ko or mujin” in pre-1945 Japan, “wichin gye” in Korea, “likelembas” in the Democratic Republic of the Congo, “xitique” in Mozambique and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (Mercy Corps, 2006).

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

The concept of the credit union was developed by Friedrich Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on money-lenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors, also to developing countries.

Meanwhile, starting in the 1970s, experimental programs in Bangladesh, Brazil, notably by Dr. Muhammad Yunus, one of the founders of modern microfinance, helped to push the industry even further into the spotlight. Tiny loans were extended to groups of poor women to invest in micro-businesses. 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" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers (CGAP, 2006).

Microfinance has really existed, although mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades, however, that serious global efforts have been made to formalize financial service provision to the poor (Brau, 2004).

The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as lazy and not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of social investment for the poor.

2.2.4 The Evolution of Microfinance in Ghana

The concept of microfinance is not new in Ghana just as it is not new in some African countries (Ikechukwu, 2012). Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Available evidence suggests that the first Credit Union in Africa was established in Northern Ghana in 1955 by Canadian Catholic Missionaries (Asiama & Osei, 2007).

Susu, which is one of the current microfinance methodologies, is thought to have originated in Nigeria and spread to Ghana in the early 1990s. According to Littlefield et al (2003), as cited in (Brefo, 2009), microfinance has gone through four (4) distinct phases worldwide. These stages are described below by Ministry of Finance - Ghana (n. d.).

Phase One

This phase was marked by the provision of subsidized credit by Governments starting in the1950's when it was assumed that the lack of money was the ultimate hindrance to the elimination of poverty. This phase was not successful and could not impact positively on the poor due to the principle that "poor people need a variety of financial services not just loans". Thus, the failure of this phase to give credence to the other complementary assistance such as savings, skills training, etc rendered this phase ineffective.

Phase Two

The second phase involved the provision of micro credit mainly through NGOs to the poor in the 1960's and 1970's. During this period, sustainability and financial self -sufficiency were still not considered important. This phase overly depended on foreign aid without considering its revitalization for efficiency and effectiveness.

Phase Three

In the 1990's the formalization of Microfinance Institutions (MFIs) began. This is the phase prior to commercialization of the MFIs. The phase centred on the acquisition of the legislations backing their operations and their formalization.

Phase Four

This phase is traced to the mid 1990's when MFIs witnessed commercialization and subsequently gained prominence. MFIs were thus mainstreamed into the financial sector and are now seen as a sub-sector of the financial sector, comprising most different financial institutions which use a particular financial method to reach the poor.

2.3 Empirical Review of Related Literature

The empirical study of literature, attracts scholarship particularly by gaining knowledge through direct and indirect observation or experience.

2.3.1 The Collapse of Microfinance Institutions

Contemporary microfinance has been taken to task over a number of possible failings. At the same time insight into grassroots microfinance institution (MFI) failure is lacking (Siwale & Ritchie, 2011). Evidences from some countries indicate that the failures of MFIs are as great as their successes. In Nigeria, the increasing rate at which microfinance banks (MFBs) were becoming distressed, made the Central Bank of Nigeria unwilling to bail them out. This compelled the Lagos State chapter of the National Association of Microfinance Banks (NAMB) to set up an Intervention Fund in 2010 to cater for MFBs financial needs (Vanguard, 2010).

In Zimbabwe, in 2014, the Zimbabwe Association of Microfinance Institutions (ZAMFI) cautioned the Zimbabwean public against deposit-taking microfinance institutions (MFIs). As at February 2014, about 147 MFIs were registered by the Reserve Bank of Zimbabwe (RBZ), the country's central bank. None of these institutions were licensed to take deposits due to irregularities in the system, as unscrupulous MFIs continued to dupe the public. It further led to the passing of the Microfinance Act in August 2014 to regulate the activities of MFIs (MicroCapital, 2014; The Standard, 2014).

In Zambia, Promotion of Rural Initiatives and Development Enterprises (PRIDE Zambia or PZ), a once promising Zambian MFI actually failed in 2009 while seeking to become a for-profit MFI (Siwale & Ritchie, 2011). Morocco, Nicaragua and even India have all witnessed financial crisis and subsequent failures of MFIs (Wichterich, 2012; CGAP, 2013)

2.3.2 Management of MFIs in Crisis

Systemic banking crises involves loss of confidence in a substantial portion of the banking system, serious enough to generate significant negative effects on the real economy thereby affecting the payments system, credit flows and destruction of asset values (Hoelscher, n. d.). Methodological flaws, regular frauds in management, unregulated growth, operating in new markets outside microcredit, lax lending practices and weak risk control systems have been cited among others as the possible causes of banking crises (Hoelscher, n. d.; Mariana, 2015).

Crises in the microfinance sector have always become a source of worry and concern to the stakeholders of MFIs. However, crises management in MFIs has proven to be successful in some countries. A typical case is the Moroccan Microfinance Crisis which began in 2007 (CGAP, 2013).

The Consultative Group to Assist the Poorest (CGAP) report indicated that the microfinance sector in Morocco was for a decade, considered a rising star. The sector took advantage of very performing institutions supported by local authorities and international funders.

The cause of the Moroccan crisis was the sharp growth of their loan portfolio, totaling USD733 million to 1.35 million in assets from 2003 to 2007. With this, it became the largest in the Middle East and North Africa. Competition in the sector resulted in multiple borrowing by customers. About 40% of customers accumulated loans in several MFIs, resulting in the rise of the overall credit risk to13.7% in 2009.

At the onset of the crisis, the Central Bank of Morocco, the Bank Al-Maghrib (BAM), the Ministry of Finance, national associations and funders mobilized funds to restore the situation and confidence. BAM quickly started supervision missions and increased the frequency of its meetings with the MFIs. BAM and the Ministry of Finance tightened the conditions on funding and governance of MFIs. As part of the measures to curtail the crisis, ARDI, a medium MFI supported by the Crown Corporation Crédit Agricole, was founded by the Central Bank to help strengthen small MFIs by providing a common set of management tools. The Government did so well by improving the regulatory machinery and promoted financial education in the country.

In order to improve the liquidity position of the MFIs, the Government, in February 2013, published a new regulation which allowed non-governmental MFIs (NGOs) to hold shares in microcredit companies and merge.

In spite of these governmental initiatives, the MFIs did not relent in their efforts. They worked on improving their own systems by engaging dedicated recovery teams, taking legal actions against delinquent borrowers and the creation of information exchange platform for customer blacklists and assets.

Even though, the recovery was fragile, the other complementing measures went a long way to ensure the sustenance of MFIs in Morocco. The Moroccan case provides valuable lessons in governance, infrastructure and market supervision.

2.3.3 Economic Impacts of Microfinance in Ghana

Micro-Finance Institutions (MFIs) play a pivotal role in the provision of services to the financially excluded population, particularly the poor and the informal sector (Muntambanadzo, Bhiri, & Makunike, 2013). These services rendered to the poor by MFIs have the power to transform the overall living conditions of the beneficiaries. MFIs in Ghana have contributed their quota to the development of the nation in a number ways, some of which are capital provision, provision of employment, capacity building, and community development.

Capital provision

At the very core of MFIs activities is poverty alleviation. The provision of capital to the productive poor for their economic ventures is a major step towards the attainment of this goal. MFIs provide capital to their clients in two ways. The provision of micro loans and other social intermediation services like training, empowering the poor to be able to take up economic ventures (Okezie, Bankoli, & Ebomuche, 2014; Bishnoi, 2015; Muhammad, 2010). Otero (1999), agrees that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. She further states that by providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society.

The other side of the capital provision to the poor is by creating avenues for them to make micro savings. Such savings, when allowed to accumulate over a period, could serve as a start-up capital. The initial savings made, sometimes serve as collateral upon which a much bigger sum is granted as a loan to the saver. Whatever form the savings may take, it inculcates the habit of savings into the poor which has a long term effect on poverty reduction.

Provision of Employment

The critical role of MFIs is poverty alleviation whereby they seek to increase employment opportunities and enhance income adequate to lift the poor above the poverty line (Muntambanadzo, Bhiri, & Makunike, 2013).MFIs in Ghana play significant role when it comes to employment provision. The employment generating power of MFIs is made manifest through their capital provision. Beneficiaries of micro loans are able to create jobs which serves as employment for them. In addition to the employment created for the direct beneficiaries of loans, few hands, in some cases are also employed in the assisted micro enterprises. This makes microfinance a financial sustainable instrument capable of providing capital for and ensuring growth and sustainability in the private informal sector ignored by traditional commercial banks (Boateng, Boateng, & Bampoe, 2015). MFIs offers direct employment opportunities for both skilled and unskilled labour. The operations of MFIs are such that a large number of employees are required to man their various departments. From top management, down to branch staff, requires quite a sizeable number of employees, especially, when the company has branches.

Capacity Building

MFIs Capacity building are efforts, projects or programs, schemes and activities that are aimed at building both the institutional and human resource capacity of financial institutions so that they can more ably and satisfactorily serve their growing customer-base while becoming operationally and financially more sustainable (Friends Consult, 2015). With this, MFIs are able to initiate projects and programmes that contributes immensely towards the capacity building of their clients in areas of loan management, customer care, pricing, marketing and selling on credit, as well as social and community issues. This is made manifest, usually, at group levels, where clients are urged to form groups to undergo training.

Community Development

While the relationship between outreach and financial self-sufficiency (FSS) of microfinance institutions (MFIs) is increasingly well researched, next to nothing is known about the relationship between broader corporate social responsibility (CSR) measures of MFIs and their financial self-sufficiency (FSS). Hoepner, Liu, & Wilson (2011) said, in light of the social promise of microfinance, the CSR-FSS relationship however is also very relevant. Their results further revealed that corporate social responsibility might be a crucial driver of MFI's financial success. MFIs, their investors and policy makers appear well advised to devote more attention to MFIs' corporate social responsibility. This could be the reason why a number of community based facilities like schools, police stations, boreholes and the like have either been provided by some MFIs or renovated by them. The country has also witnessed some medical bills of patients being fully paid for by some MFIs.

2.3.4 Challenges of Microfinance

Contemporary microfinance has been taken to task over a number of possible failings. At the same time, insight into grassroots microfinance institution failure is lacking. There are presently few in-depth studies of failed MFIs in countries where microfinance is still emerging (Siwale & Ritchie, 2011).

The failure of community banking scheme and many previous government's micro financing schemes was predicated on the challenges they faced. Many of these challenges are still bedevilling microfinance banking (Ikechukwu, 2012). In Ghana, 2013 witnessed unprecedented collapses of MFIs, in spite of the fact that they met the minimum requirement for licensing by the regulator, Bank of Ghana (Addo, 2014). The failure or collapse of MFIs in Ghana as witnessed in 2013 could however be attributed to several factors. Some of these factors are discussed below:

Lack of Policy Guidelines

Microfinance sub-sector, since the 1950s, has operated without specific policy guidelines and goals. This partially accounts for the slow growth of the sub-sector, and the apparent lack of direction, fragmentation and lack of coordination. There has so far not been a coherent approach to dealing with the constraints facing the sub-sector (Asiama & Osei, 2007). As a result, MFIs without policy guidelines lack direction regarding major decision making and implementation.

Overtrading

Overtraded companies face liquidity problems and/or run out of working capital. The is because these companies enter a negative cycle, where an increase in interest expenses negatively impacts the net profit, which leads to lesser working capital, and that leads to increased borrowings, which in turn leads to interest expenses and the cycle continues.

Addo (2014) is of the view that MFIs were never designed as commercial financial intermediaries. Therefore, opening up branches and behaving like commercial banks does not make them commercial banks. He further revealed that their indulgence in overtrading is borne out of lack of competence or qualified staff. For instance, instead of investing monies to at least break even on the interest rate offered to their clients, they rather saw these timed investments as free or idle monies and applied them wrongly. In most cases, depositors' funds were used in opening branches and making other huge capital expenses (expensive rents, flashy furniture and decorations). Unknown to them, opening branches meant more expenses on utility, salaries and other overhead expenses.

Payment of Higher Interest Rates on Investment

In MFIs quest to remain competitive, they resort to payment of outrageous interest rates to customers of their fixed deposits accounts. A study by Owusu-Nuamah (2014) revealed that because there were so many MFIs springing up everywhere, the Ghanaian market was experiencing what the financial authority call financial saturation. Therefore, to keep up with the pressure of competition, companies rolled-out products that will endear more clients to them.

The study further noted that, some of these products were too costly to the companies; their income streams could not cover some of the expenses they were incurring in the form of interest payment to clients. The most popular of these products were the cement and cloth investment. The products were ran like fixed deposit products where clients deposited Gh¢100.00 (in most of the companies) and took 1/2 piece of cloth or 1 bag of cement whose prices were hovering around Gh¢20.00 for a period of 4-6 months (depending on the competition around).

Inadequate Knowledge of the Industry by Owners of MFIs

The primary purpose of microfinance is to provide loans to poor people at an affordable interest rate in an attempt to enable them to get out of the poverty in which they are entangled (Khan, 2008). Microfinance, therefore, requires highly specialized financial knowledge as well as a unique combination of skills, such as knowledge of social science, local languages and customs (Placeholder3). However, most of the owners, normally the Chief Executive Officers (CEOs), took the business as a trade where they moved on to establish their own after a few months of training in other MFIs. Some of the owners did not pay attention to the analysis and consequences of the decisions they were taking. These business owners would not listen to the advice from young financial professionals they had employed, who also had no option but to allow owners to have their way in order to keep their jobs (Owusu-Nuamah, 2014).

They operated their companies as they wished and deemed good, with little or no managerial consultation. Indeed the MFIs community has experienced major failures, for which inadequacy of government and management is to blame (Khan, 2008).

Good corporate governance can improve firm performance and help assure long-term survival. The issue of corporate governance has therefore been of increasing interest for microfinance as it is today considered to be one of the weakest area in the industry (CSFI, 2008). Over-concentration of managerial mandates in the owners, coupled with lack of best practices like board independence and shareholder ownership are some of the major causes of MFIs failure.

Poor Recovery Rate

MFIs are organizations which were originally set up in order to help finance those small scale micro-enterprises and local economic activities which were largely excluded from formal finance and mainstream banking practice (Siwale & Ritchie, 2011). Microfinance in Ghana is, however, plague with challenges including poor recovery rate, lack of capital for sustainability, inadequate credit delivery and management, inability to reach the most vulnerable and marginalized, regulation and supervision problems as well as high turnover of MFI staff (Boateng, Boateng, & Bampoe, 2015).

The major source of income for micro-finance companies has been loans. Unfortunately, this department that required critical analysis has not been given the needed attention. The popular method of asking clients to contribute for a month or two so that their balances could be doubled or tripled downplayed the significance of proper assessment and monitoring of loans. Loan Officer to client ratio widened for most companies, hence did not have enough time to look at loans that were defaulting until the loans hit the expiry region (by then it becomes extremely difficult to recover). Clients identified this loop hole and played these companies by robbing Peter to pay Paul (Owusu-Nuamah, 2014).

In addition, some MFIs have resorted to financing capital intensive projects, which is supposed to be the prerogative of the commercial banks. A cursory study, has also revealed that some MFIs have subsidiaries into which greater portion of their mobilizations are injected as loans. As a result, a failure of a subsidiary amounts to non-performance of such loans, rendering them as bad debt.

Lack of Qualified Staff

A study by Mukama, Fish, & Volschenk (2005), as cited in Addo (2014), indicated that staff related problems, such as educational level of staff, skills development of staff, and appropriate staff incentive schemes can adversely impact on the survivability of MFIs. The study further noted that such staff related problems are probably the most manageable of the problems that MFIs experience. For example, educational level of staff and skills development of staff can be supported by appropriate incentive schemes in order to facilitate improved quality of loans books, improved quality of service to attract and expand customer base and retain existing clients. Good staff selection practices can be given incentives through a wellstructured commission scheme, which in turn, would lead to fewer fraudulent practices and increased repayment rates. Staff skills upgrade through both external and in-house training may not only increase regulatory and supervisory compliance, but also professionalism of staffs.

Fraudulent Activities by Staff

Another major cause of MFIs failure is fraudulent activities by staff of the companies. These acts are mapped out and executed easily because of weak internal controls, bad accounting software and poor supervision. Staff either create ghost accounts to take loans or record fake expenses. There are also peculiar cases where some of the software the companies are using allow users to delete transactions. Some smart staff manage to delete withdrawal transactions so that their account balance will increase again to allow for more withdrawals (Owusu-Nuamah, 2014).

2.4 Conclusion

The review presents the astounding ways microfinance has evolved, incorporating into its practice social and economic development concepts, as well as principles that underline financial and commercial markets. From its inception in the 1970s, there are enough studies to show that the combination of social and economic development of microfinance has led to the creation of a growing number of sustainable microfinance institutions around the developing world. In this review, there are enough evidence indicating that in spite of the socio-economic developments of microfinance, the MFIs are confronted with a number of challenges which could lead to complete failure of the industry.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The chapter explains the methodology adopted for the study. It highlights the research design; study variables and units analysis; data sources used, tools for data collection; sampling techniques; methods of primary data collection; and how data were analyzed.

3.2 Research Design

Research designs are procedures for collecting, analyzing, interpreting, and reporting data in research studies (Creswel & Clark, 2011). It is the structure of any scientific work. It gives direction and systematic approach to the research. Like any other phenomenon, no research design is perfect in itself. Different types of research designs have different advantages and disadvantages (Blakstad, 2015). However, researchers can manage and avert these advantages and disadvantages to maximize their impact. In line with the research questions and the accompanying objectives, the study adopted the survey approach.

The study, which is a case study, adopted the mixed methods approach to make empirical investigation into the trend of failure of microfinance institutions in Ghana, focusing on Noble Dream Microfinance Limited. This is because case study research design has evolved over the past few years as a useful tool for investigating trends and specific situations (Shuttleworth, 2008).

Mixed methods research is a methodology for conducting research that involves collecting, analysing and integrating quantitative and qualitative research. This integration is used to provide a better understanding of the research problem than either of each alone. The mixed methods approach is essential to tackle the research questions from different relevant angles (Dedoose, 2012). In order to conduct a mixed methods research, there is a need to collect, analyse, and interpret quantitative and qualitative data, integrating (or mixing) them in a single study or a longitudinal programme of inquiry (Bulsara, n.d.; www.baitshepi-tebogo.com, n.d).

Researchers may fashion their mixed methods research to be quantitatively driven whereby the research study is, at its core, a quantitative study with qualitative data or method added to supplement and improve the quantitative study by providing an added value and deeper, wider, and fuller or more complex answers to research the questions. Others also prefer qualitatively driven approaches or designs in which the research study is, at its core, a qualitative study with quantitative data or method added to supplement and improve the qualitative study by providing an added value and deeper, wider, and fuller or more complex answers to research the questions. To achieve a balance in the use of mixed methods research, an interactive or equal status design is used such that the research study equally emphasizes on the interactively and integration of quantitative and qualitative data, methods, methodologies, and paradigms (Lisle, 2011).

On their own though, quantitative and qualitative methods have some strengths and weaknesses, more benefits are realised when they are brought together. A mixed method design combines the strengths of both research approaches (www.baitshepi-tebogo.com, n.d) to compensate for the weaknesses that may be encountered in using either of the approaches.

For decades now, some researchers have tried to oppose the mixed methods research as a natural complement to the traditional quantitative and qualitative research, the debate has been over the rationale for combining what has previously been regarded as incompatible methodologies (Johnson, Onwuegbuzie, & Turner, n.d.; Hall, n.d.; Cronholm & Hjalmarsson, 2011). In the mist of the on-going debate, the mixed methods research is now becoming increasingly articulated and attached to research practice, and being recognized as the third major research approach or research paradigm (Johnson, Onwuegbuzie, & Turner, 2007) to provide a platform for bridging the divide between qualitative and quantitative paradigms (Cronholm & Hjalmarsson, 2011).

A mixed methods research enables researchers to add meaning to numbers, words, pictures, and narratives. Numerical data obtain from quantitative data can be used to add precision to the words, pictures, and narratives. The mixed methods research can answer a broader and more complete range of research questions because the researcher is not confined to a single method or approach. When a researcher uses mixed methods research he or she adds the strengths of other methods to overcome the weaknesses in another method. Researchers who use mixed method believe that mixed methods can add insights and understanding that might be missed when only a single method is used. When qualitative and quantitative researches are used together in a single study they produce more complete knowledge necessary to inform theory and practice (www.southalabama.edu, n.d.).

Mixed methods usually use interviews, closed-ended questionnaires (numerical data), observation, performance tests, focus groups, and document analysis as data collection instruments (Creswell, 2012; Zohrabi, 2013). Data collected in mixed methods research are analysed using mixed analysis (Onwuegbuzie & Combs, 2011).

In this study, mixed method was chosen to enable the researcher to view the problem from multiple perspectives so as to enhance and enrich the meaning of a singular perspective research (Creswell, Klassen, Clark, & Smith, n.d) and also to integrate findings to draw inferences from both qualitative and quantitative perspectives. To achieve this, the researcher used triangulation which involves the process of verification that increases validity by incorporating several viewpoints, methods and data sources in both quantitative (validation) and qualitative (inquiry) studies (Yeasmin & Rahman, 2012).

To achieve the objectives of the study, the researcher employs the mixed methods approach in a case study to make empirical investigation into the failure of microfinance institutions in Ghana.

3.3Population and Sampling

Choosing an actual data source is an important part in conducting quantitative and qualitative study. The term used to define this process is sampling. According to Morgan (2008) sampling is necessary to initiate the process of choosing actual data sources from a larger set of possibilities. This process involves

1. defining the full set of possible data sources – which is generally termed the population,
2. selecting a specific sampleof data sources from that population.

In this study sampling was done to define the possible data sources and thereby selecting the specific sample population as data source.

3.3.1 Defining the Population for the Study

Yount (2006) points out that a population comprises all possible cases of persons, objects, and events that constitute a known whole. The concept refers to every individual who fits the criteria that a researcher has laid out for the research participants (Saumure & Given, 2008). In all this study, all the nine the (9) Management members of Noble Dream Microfinance Limited constitute a well-defined group of individuals who can be considered as a population. This population comprises the target population and accessible population (Explorable.com, 2009; www.umsl.edu, n.d).

Target population - The target population is the entire set of units for which the survey data are to be used to make inferences. Thus, the target population defines those units for which the findings of the survey are meant to generalize (SAGE Publications, n.d.). The study targets seven (7) Management members of Noble Dream Microfinance Limited fromthe Head Office which is considered to be the operational and administrative pivot of the institution.

Accessible population -Porter (1999) posits that when an exceptional target population is the focus of a proposed descriptive, phenomenological study, it is important to project the size of the population that is both eligible to participate and accessible to the investigator. In this study, the management of Noble Dream Microfinance Limited are considered exceptional since the company has ceased its operations and therefore do not have active management. According to Porter (1999), this estimate of the accessible population is one of the bases for judging the feasibility of phenomenological study, and establishes a demographic framework for the analysis. In the study, the accessible population are three (3) management members of Noble Dream Microfinance Limited.

3.3.2 Sample and Sampling Techniques

Kadam & Bhalerao (2010) said it is naturally neither practical nor feasible to study the whole population in any study. Hence, a set of participants is selected from the population, which is less in number (size) but adequately represents the population from which it is drawn so that true inferences about the population can be made from the results obtained. Sample size determination is an important feature of any empirical study in which the goal is to make inferences about a population from a sample (www.umsl.edu, n.d). In this study, sampling techniques were employed to choose a representative subset of the population to obtain a sample for the study (Taylor, 2015).Three (3) Management membersout of the total of nine (9) constituted the sample for the study. A non-probability sampling was used with purposive sampling.

The Management were purposely sampled because they hold the information the researcher needed for the study. Trochim (2006), revealed that in purposive sampling, a researcher samples with a purpose in mind.

3.4 Study Variables and Unit of Analysis

The units of analysis constitute the most elementary part of the phenomenon to be studied. They are the basic units of investigation. According to Kumekpor (2002), the units of analysis in any investigation refer to the actual empirical units, objects, occurrences which must be observed or measured in order to study a particular phenomenon. In this regard, microfinance institutions (MFIs) constitute the main variables of analysis.

3.5 Instrumentation and Data Sources

Instrumentation is defined as a process used to solicit information in research (Ary, Lukan, & Razavier, 2002). In this research, a triangulation of instruments was employed by the researcher as much of the data collected were based onquestionnaire and personal interview. These instruments were used as primary strategies to obtain the needed information from the study population to determine the current situation of the phenomenon. Both primary and secondary data were employed for the study. Library and internet search were employed to reviewed relevant literature from secondary sources to assemble information about the subject matter.

3.6 Data Collection Methods

Both closed ended and open ended questionnaire were distributed to the identifiable management members of Noble Dream Microfinance Limited by the researcher. The researcher made personal contact with the identified management members of the company to conduct the interview. The researcher opts for this method specifically for the purpose of having face-to-face conversation with the management.

3.7 Data Processing and Analysis

Data collected were processed, coded and analysed using Statistical Package for Social Sciences (SPSS). In this study, content analysis on Bank of Ghana's onsite inspection report was also conducted. According to Babbie (2001), content analysis involves the study of recorded human communications which is essentially a coding operation, with the coding being the process of transforming raw data into a standardized form.

3.8 Profile of Noble Dream Microfinance Limited

Noble Dream Microfinance Limited was incorporated and registered on 7th October, 2009 at the Registrar General's Department. On March 28, 2013, Noble Dream Microfinance Limited was issued the final license by Bank of Ghana to operate as a Non-Bank Financial Institution under the Non-Bank Financial Institution Act 2008 (Act 774) with certificate number 166 and appears as number 292 on the list of licenced microfinance institutions as at June 2015 provided by Bank of Ghana. Noble Hospitality, Noble Broadcasting (KKTV, Printing Press, Media), Noble Construction Limited, Noble Farms (Poultry – Dormaa, Piggery – Techiman) and Genesys Limited (Automobile, Plants & Generators) are subsidiaries of the Noble Dream Microfinance Limited. There are three Ghanaian individuals holding shares in Noble Dream Microfinance Limited and five board of directors who are all Ghanaians. The companyincreased its paid upcapital fromGH¢1,000,000 (one million Ghana Cedis) to GH¢14,576,546 (fourteen million, five hundred and seventy six thousand, five hundred and forty six Ghana Cedis) on 25th February, 2013. This fresh injection has not been verified to ensure that it is not mobilized customer deposit that has been introduced as capital. In all, the company had 26 branches in Ashanti Region (A/R), Brong Ahafo Region (BAR), Greater Accra (GAR) and Western Region (W/R), with the Head Office being at former Mr. Biggs, Adiebeba along Ahodwo High Street – Kumasi (see Table 3.1) .

Table 3.1 Distribution of branches of Noble Dream Microfinance Limited

Branch	Region	Designation	Date of opening
Agona	A/R	Branch	11/11/2009
Fawoade	A/R	Branch	11/9/2010
Atwima-Koforidua	A/R	Branch	1/9/2011
Maakro	A/R	Branch	7/1/2011
Kofiase	A/R	Branch	9/2/2011
Asafo	A/R	Branch	11/8/2011
Nyinahin	A/R	Branch	1/2/2012
Ohwimase	A/R	Branch	5/9/2012
Nkoranza	BAR	Branch	9/4/2012
Roman Hill	A/R	Branch	9/9/2012
Bantama	A/R	Branch	11/9/2012
Sefwi-Bodi	W/R	Branch	2/5/2013
Ejisu	A/R	Branch	5/2/2013
Oforikrom	A/R	Branch	5/2/2013
Sunyani	BAR	Branch	16/5/2012
Nkrankwanta	BAR	Branch	17/12/2012
Mankranso	A/R	Branch	17/8/2010
Sefwi-Asawinso	W/R	Branch	18/8/2013
Ahodwo	A/R	Head Office	18/9/2012
Bonwire	A/R	Branch	23/2/2011
Techiman	BAR	Branch	23/2/2011
Wiamoase	A/R	Branch	24/2/2011
Accra - Rawlings Park	GAR	Branch	24/4/2012
Dormaa	BAR	Branch	28/2/2012
Kenyase	A/R	Branch	28/4/2011
Sefwi-Wiawso	W/R	Branch	26/11/2013

Source; Company's Database, 2014

The main activities carried out by the company are fixed investment account, savings, 'susu', and loan. The products and service offered by the company are Noble Gold, Noble Trust, Adepa, Normal Savings Account, Business Account, Normal Susu Account, Noble Child Account, Susubiribi Account, Anidaso Susu, Funeral Loan, Clearing Loan, Commercial Loan, Staff Loan and Group Loan.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents the analysis of data collected from the former management of Noble Dream Microfinance Limited.

4.1 Background Information of Respondents

The educational background, position in the company, training and experience of the respondents were analyzed and the results are presented in the figures and tables below. Fig 4.1shows that 33.33% of the respondents had bachelor's degree, 33.33% had master's degree and another 33.33% had other professional qualifications. It can be that the management of the defunct microfinance company were highly educated ruling out the assumption that the company collapsed because of uneducated management team.

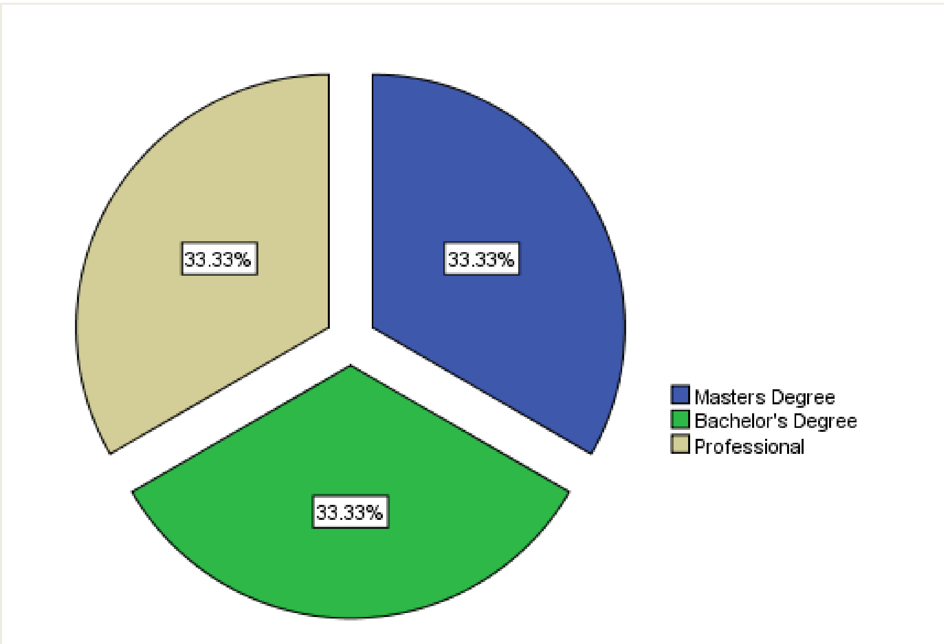

Fig 4.1 Educational Background of Management Staff

Source; Researcher's Field Work, 2015

Table 4.1: Training and Experience of Management Staff

	N	Minimum	Maximum	Mean	Std. Deviation
Formal Training in the position	3	1	2	1.33	.577
Prior Experience pertaining to the position	3	1	1	1.00	.000
Formal Training on Microfinance	3	1	2	1.33	.577

Source; Researcher's Field Work, 2015

On management training and experience, Table 4.1 shows that most of the respondents (mean= 1.33) had undergone training pertaining to their position, all (mean=1) had previous managerial position before their role at the microfinance and most of them (mean =1.33) had been trained specifically on microfinance.

The specific areas where management had received training were also assessed. Table 4.2 shows that all the management staff (mean=1) had received training on customer service, credit and risk management and most of them (mean =1.33) had received raining on operations, few (mean=1.67) had been trained on accounts and finance but all (2.0) denied receiving training on human resources

Table 4.2: Management Training Areas

	N	Minimum	Maximum	Mean	Std. Deviation
Training on Human Resource	3	2	2	2.00	.000
Training on Accounts and Finance	3	1	2	1.67	.577
Training on Operations	3	1	2	1.33	.577
Training on Management	3	1	1	1.00	.000
Training on Risk Management	3	1	1	1.00	.000
Training on Credit	3	1	1	1.00	.000
Training on Customer Service	3	1	1	1.00	.000
Valid N (listwise)	3				

Source; Researcher's Field Work, 2015

The findings in table 4.1 and table 4.2 majorities of the people who manned the microfinance company were experienced and received training on almost all the functional areas of microfinance management. Therefore the possibilities of blaming the collapse of the company on managerial inexperience or lack of training are completely ruled out.

4.2 Factors Leading to the Collapse of the MFI

The first objective of the research was to find out the factors that led to the collapse of the microfinance company. The collapse of financial institutions, especially microfinance insitutions in Ghana has headlined the news waves frequently, resulted in the loss of jobs and loss of savings, public agitations and speculations without post-mortem analysis. A case in point is the collapse of Noble Dream Microfinance Limited in 2014. The researcher decided to analyse the factors that led to the collapse of the insitution as a way of caution to the other microfinance institutions.

Three management members of the defunct MFI were used as the sample for the study

Table 4.3: Factors leading to the MFI's Collapse

	N	Mean	Std. Deviation	Std. Error Mean
High Interest Rate on Investment	3	3.67	1.528	.882
Overtrading	3	3.33	.577	.333
Poor Credit Appraisal	3	3.67	1.528	.882
Business Failure	3	2.33	1.528	.882
Diversion of Funds	3	4.00	1.000	.577
Inadequate Monitoring of Loans	3	3.00	1.000	.577
Willful Loan Default	3	3.33	.577	.333
Lack of Qualified Staff	3	2.00	1.000	.577

Source; Researcher's Field Work, 2015

From table 4.3, diversion of funds was ranked the highest (mean=4.00) factor that caused the collapse of the microfinance company, followed by high interest rate (mean=3.67) and poor credit appraisal (mean=3.67). Other factors were overtrading (mean=3.33), willful loan default (mean=3.33) and inadequate loan monitoring (mean=3.00). As previously stated, lack of qualified staff was the lowest (mean=2.33) implicated as the cause of the company's misfortunes.

The one-sample t-test was performed to ascertain the relative significance of the factors. For each factor, the null hypothesis was that this variable was not significant indicating there is no significant difference between the means. A five point scale ranging from much lower rating to higher rating was used. A hypothetical test value was set at 1.5 with 95% as the significant level. This premised on the five point scale rating where a factor is deemed relatively responsible for the collapse of the bank if probability is less than 0.05.

High Interest Rate on investment

The mention of interest rate raises two issues for consideration. Firstly, the proportion of a principal loan amount that is charged to be repaid by the borrower together with the actual loan amount. The second is the rate of returns on investment held by customers or simply, the expected profits on customers' investments. The researcher focused on the latter. The payment of interest on customers' investments with a company is a cost to that company. It is therefore expected that the higher the interest paid to the customers, the higher would be the cost that the company incur. Noble Dream Microfinance Limited had two investment products; Noble Gold and Noble Trust. The Noble Trust gained dominancy over the Noble Gold due to its higher interest rate (10.50%) and relatively shorter maturity period (90 days). Roll over upon maturity was also permissible. The product was therefore considered high-yielding by the customers but deposits from this product were short term funds. By implication, the higher the more matured investments are redeemed, the higher the liquidity risk the company would face, all other things being equal. This factor was considered to ascertain whether or not the collapse of the company could be attributed to it.

Overtrading

Overtrading refers to the over expansion of a company's operations. Whereas overtrading may not always be bad, the sources of the funds for such expansionary work and the maturity period of such funds need to be highly considered. For instance it may not be financially sound to use short term funds for long term maturity projects. Overtrading in the company took the form of rapid expansion of its branches of operations to be able to reach out to a wider market. More loans were also granted to both customers and non-customers since most of the products were loan-based and also to be able to generate more interest on loans than it is paid on customers' investments. Overtrading was considered by the researcher to determine whether or not it was a contributing factor to the collapse of the company.

Poor Credit Appraisal

Credit appraisal refers to an important activity carried out by credit department of a bank to determine whether or not to accept the proposal for finance. In the process, the loan applicant is assessed to determine whether or not he/she qualifies for the loan being applied. The loan appraisal process forms a crucial part of the credit policy of financial institutions. While the process and the requirements may differ from one company to another, the overall objective is the same in every institution;

to determine whether or not the applicant deserves to be granted the loan. It is important to note that the problem of loan default begins with poor credit appraisal. Since credit is one of the means through which financial institutions create money for sustainability and growth, poor credit appraisal is worth considering in this study.

Diversion of Funds

Diversion of funds refers to the reallocation of funds for purposes other than the intended. For instance, funds intended to be invested in Treasury bill may be considered diverted when it used to pay staff salaries and allowances. Funds diversion from the core business of a company may tend to impact negatively on its operations, especially when such funds become difficult to be paid or never get repaid. The researcher found this factor worth noting.

Inadequate Loans Monitoring

Like credit appraisal, loan monitoring is also a major activity performed by the credit department to ensure that loans granted get repaid. In some companies, loans monitoring is not regarded as the prerogative of the credit department. The marketing department is also used in some instances as an agency for loan monitoring. Unlike credit appraisal which is a pre loan disbursement activity, loan monitoring is a post loan disbursement activity. This means that loans monitoring only becomes necessary after loans have been duly approved and disbursed to the applicant. Even though the techniques, processes, systems and strategies of loan monitoring may be company specific, they are universally intended to ensure loan repayment and to minimise loan default if not totally avoid it. It is therefore of essence that the researcher considered the adequacy of loan monitoring as a possible factor which contributed to the collapsed of Noble Dream Microfinance Limited.

Willful Loan Default

This refers to the act of loan customers deliberately deciding to default loans granted them by their lenders. Willful loan default implies that the borrower has the ability to repay a loan amount but just unwilling to do so. Whereas such customers may individually have their reasons for willingly defaulting, it is important that critical attention is paid to early and consistent loan monitoring in order to detect signs of default before the loans even near maturity.

Lack of Qualified Staff

The staff of a company refers to its employees. The term staff is variously referred to as workforce, personnel, human resource, manpower and labour. The quality of the labour of a particular company is determined among other factors by their educational and the training levels. Where the two are high, the workforce tends to be competent and productive. Lack of education and training can result to low productivity and poor performance. It is therefore important that particular attention is paid to the educational level during the recruitment and the selection process. The researcher wanted to find out whether or not the quality of staff of Noble Dream Microfinance Limited accounted for its collapse.

Business Failure

This refers to the ceasing of operations by a company due to its inability to make profit or generate enough revenue to cover its expenses. It must be noted that a profitable business can still fail if it does not generate enough cash flow to cater for its expenses. Among the factors that can lead to a business failure are excessive taxation, high interest rates, wars, poor management decisions, excessive regulations, lack of public interest and lack of competitive power. Some companies decide to willingly shut down, whereas others continue operations until they are forced to shut down by a court order. Due to the fact that a lot of the customers of Noble Dream Microfinance Limited fought the company through the law courts, the researcher chose to find out whether or not business failure also contributed to the collapse of the company.

Table 4.4: One-Sample Test

	Test Value = 1.5					
				Mean	95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Difference	Lower	Upper
High Interest Rate on Investment	2.457	2	.133	2.167	-1.63	5.96
Overtrading	5.500	2	.032	1.833	.40	3.27
Diversion of funds	2.457	2	.133	2.167	-1.63	5.96
Business Failure	.945	2	.444	.833	-2.96	4.63
Poor Credit Appraisal	4.330	2	.049	2.500	.02	4.98
Inadequate Monitoring	2.598	2	.122	1.500	-.98	3.98
Willful Loan Default	5.500	2	.032	1.833	.40	3.27
Lack of Qualified Staff	.866	2	.478	.500	-1.98	2.98

Source; Researcher’s Field Work, 2015

Table 4.4 shows that all the eight variables were statistically insignificant since their p-values were more than the significance level (0.05).

Failure to comply to some standard were also implicated as factors that contributed to the collapse of the microfinance company

Table 4.5: Other Compliance Factors That Caused the MFI's Collapse

	N	Minimum	Maximum	Mean	Std. Deviation
Inadequate auditing procedures	3	1	2	1.33	.577
Non-Compliance to HR laid down policies	3	1	2	1.33	.577
Non-Compliance to BoG regulatory policies	3	1	1	1.00	.000
Non-Compliance to standard accounting policies	3	1	1	1.00	.000
Non-Compliance to standard loan policy	3	1	1	1.00	.000
Non compliance to customer care procedures	3	1	1	1.00	.000
Valid N	3				

Source; Researcher's Field Work, 2015

Other factros that were found to contribute to the collapse of the microfinance were inadequate auditing procedures (mean=1.33), non-compliance to human resource laid down policies (mean=1.33), non-compliance to Bank of Ghana regulatory policies (mean=1), non-compliance to standard accounting policies (mean=1), and non-compliance factors were all indicated by management as factors leading to the collapse of the microfinance entity (mean=1).

The respondents were further probed to know whether the Bank of Ghana (BoG) paid frequent monitoring to the company before the crises. Table 4.6 below shows that the BoG actually paid monitoring visits to the MFI as indicated 'Yes' by all the espondents(100). The collapse of the company cannot be blamed on lack of BoG monitoring.

Table 4.6 Frequent Monitoring by BOG

	Frequency	Percent	Valid Percent
Valid Yes	3	100.0	100.0

Source; Researcher's Field Work, 2015

Analysis of their background information revealed that these executives had acquired postgraduate and professional qualifications along side training on their positions in the microfinance industry. All of them had quite an incredible experience in microfinance before their current roles at Noble Dream Microfinance. In cases of financial collapse, lack of management training or lack of experience domes up as or inexperience are normally blamed as one of the reason. The results in this study rules out that assumption. The failure of the financial institution could therefore be due to other factors.

The next stage of the study tried to find from the former management of the defunct company their reasons for the collapse. The respondents were asked to rate how eight identified factors could be the possible cause of the microfinance collapse. The mean analysis showed that diversion of funds was the highest factor indicated by the former management of Noble Dream Microfinance Limited as causing the collapse of the company. The respondents revealed during the interview that the company did not concentrate on its core business but rather were engaged in other investments activities beside the micro savings and credit. Some of these extra-corporate investments such as real estates and huge capital assets drained the MFIs liquidity which resulted in the company's not able to meet the withdrawal and credit demands of clients.

High interest rate on its investment products was the second-highest rated reason for the collapse of the MFI. The respondents further explained that the company paid an annual rate of 42% (10.5% per 90 days) on one of its highly patronized investment products called Noble Trust. Mobilizations from this product were mostly short term.

Another variable implicated by the respondents was overtrading by the microfinance company. The former management staff stressed that the MFI expanded its operations too rapidly without taking the financial fundamentals of liquidity into consideration. This coupled with diversion of funds and high interest rate, were cited as the leading cause of the collapse of Noble Dream Microfinance Limited. The statistical significance of these variables needs further research and refinement of methodology.

The analysis also looked at how failure to comply with various indicators could affect the misfortunes of the microfinance company. The leading ones included non-compliance to standard accounting practices, non-compliance with Bank of Ghana regulatory policies and non-compliance to loan policies. The idea of regulation and compliance is to ensure that microfinance institutions conduct their businesses in a manner that prevent their collapse. When these institutions defy the laid down procedures, they do so at their own peril, as evidenced by Noble Dream Microfinance.

4.3 Measures adopted to manage the Situation

An interview was conducted with the management of the defunct microfinance company to gain insight into the measures they adopted to manage the situtation. The emphasis placed on recurrent themes in the responses were coded into a five point scale used for the analysis.

Table 4.7: Measures Adopted to Manage the Emerging Failing Situation

	N	Mean	Std. Deviation	Std. Error Mean
Refinancing	3	3.00	1.000	.577
Shares offloading	3	4.33	.577	.333
Aggressive Loan recovery	3	5.00	.000[a]	.000
Assets disposal	3	4.00	1.000	.577
Reinforcement of marketing team	3	2.33	.577	.333
Reduction of interest on investment accounts	3	3.67	.577	.333

Source; Researcher's Field Work, 2015

As shown in table 4.7, in the wake of the collapse, an aggresive loan recovery was embarked upon by the bank (mean=5 on 5-likert scale) followed by shares offloading (mean=4.33) and assets disposal (mean=4). Reduction of interest on investment accounts and refinancing were the next strategies adopted to mitigate the situation. A weak attempt of reinforcing marketing team was also made (mean=2.33)

Many attempts were made to prevent the collapse of the microfinance insitution but could not prove useful. These measures, should have been instituted at a time when the company was doing better. The MFI should have developed a continuous implementation of these measures as part of its daily operations. With underlying weak financial indicators, all these attempts proved futile.

The respondents were further asked on the role played by the Bank of Ghana to assist the company during the crises. Two of the respondents indicated that the Bank of Ghana did not play any role during the crisis but one respondent, however, indicated that the company did not officially inform Bank of Ghana of the crisis. The latter further reiterated that during the previous monitoring by the BoG, the company was warned on certain practices which actually caused the failure of the MFI. Specifically the respondent cited the role of the Chief Executive Officer (CEO), numerous subsidiaries, rejection of the need to keep the required reserve, over expansion of the company (opening up of branches without the BoG's approval), the huge amount of non-performing loans and the increment of the company's capital (from one million Ghana cedis to fourteen million, five hundred and seventy six thousand, five hundred and forty six Ghana Cedis) by the shareholders without prove of capital injection as the various concerns raised by the Bank of Ghana in their monitoring reports. The respondent, however opined that the Bank of Ghana should have compelled the company to comply with its requirements else those who are "actually in charge" would perceive and treat such concerns as mere suggestions.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter highlights the summary the findings from the study, followed by the recommendations of the study based on the findings and finally, the conclusion.

5.1 Summary of Findings

The study sets out to assess the causes of microfinance failure in Ghana , using the defunct Noble Dream Microfinance Limited as a case study. The following findings were made:

- The management members of the defunct microfinance company were highly educated ruling out the assumption that the company collapsed because of uneducated management team.
- Majority of the people who manned the microfinance company were experienced and received training on almost all the functional areas of microfinance management. Therefore the possibilities of blaming the collapse of the company on managerial inexperience or lack of training are completely ruled out.
- Diversion of funds was the highest factor as causing the collapse as revealed by the former management of Noble Dream Microfinance Limited. The respondents revealed during the interview that the company did not concentrate on its core business alone but rather were engaged in other long term investment activities beside the micro savings and lending. Short term funds were locked up in long term projects. Some of these extra-corporate investments such as real estates, farms and huge capital assets drained the

MFIs liquidity which rendered the company incapable to meet the withdrawal and credit demands of clients.

- High interest rate on its investment products was the second-highest rated reason for the collapse of the MFI. The respondents further explained that the company paid an annual rate of 42% (10.5% per 90 days) on one of its highly patronized investment products called Noble Trust. Mobilizations from this product were mostly short term.
- Another variable implicated by the respondents was overtrading by the microfinance company. The former management staff stressed that the MFI expanded its operations too rapidly without paying much attention to the financial fundamentals of liquidity into consideration. This coupled with diversion of funds and high interest rate, were cited as the leading cause of the collapse of Noble Dream Microfinance Limited. The statistical significance of these variables needs further research and refinement of methodology.
- The analysis also looked at how failure to comply with various indicators could affect the misfortunes of the microfinance company. The leading ones included non-compliance to standard accounting practices, non-compliance with Bank of Ghana regulatory policies and non-compliance to loan policies. The idea of regulation and compliance is to ensure that microfinance institutions conduct their businesses in a manner that prevent their collapse. When these institutions defy the laid down procedures, they do so at their own peril, as evidenced by Noble Dream Microfinance Limited.
- Many attempts were made to prevent the collapse of the microfinance institution but could not prove useful.

5.2 Conclusion

Microfinance institutions are pivotal to poverty eradication and wealth creation . The industry has proved to work well in other jurisdictions especially in Asia and other regions.MFIs are of essence due to the problem that low-income people pay high costs and sometimes rely on insecure, unpredictable, and unscrupulous options to access basic financial products and services. This is the more reason why the financial inclusion movement is striving to encourage the delivery of a full range of financial products at fair prices and without the risks poor people face today. The story of microfinance in Ghana is different, faced with various series of bankruptcies. The case of Noble Dream Microfinance Limited made headlines because the company seemed to be performing well when perceived from the outside until the emergence of its unfortunate liquidity crisis which forced it out of operation.

In the wake of its financial collapse, various factors were assumed to be the cause without empirical post-mortem analysis. This research was conducted to pinpoint the root causes of the unfortunate collapse of Noble Dream Microfinance Limited and to assess the measures the company adopted to deal with the situation. This has implications for other microfinance companies trying to prevent similar fates. The study revealed that diversion of funds was highly responsible for the collapse of the MFI and it is expected that other MFIs will take note.

Also failure to comply to regulatory polices have dire conequences on the companies. To ensure the sustainability and growth in the microfinance industry, these regulatory control measures must be made a priority.

5.3 Recommendations

From the findings emanating from the study, the following recommendations are made.

- The regulatory body must thoroughly investigate the shareholding structure of MFIs. Such a search would reveal and curtail the occurrence of sole ownership of MFIs and the ownership by close relatives. Sole ownership and the ownership of MFIs by close relatives have the tendency to facilitate the satisfaction of personal (owner's) interests at the expense of the customers and other stakeholders.
- The regulators must ensure proper corporate governance practices in MFIs. The fusion and concentration of ownership and managerial powers in a single individual does not fit into proper corporate governance practices. The regulatory body must therefore ensure that MFIs adhere strictly to this particlar corporate governance practice. In the case of Noble Dream Microfinance Limited, the majority shareholder, also happened to be the Chief Executive Officer (CEO) and the Board Chairman.
- MFIs must ensure strict compliance with regulatory requirements. The regulator, the Bank of Ghana(BoG) in Ghana's case,has specific requirements as regards the operations of banking and non banking institutions, of whch MFIs are no exception. Particular requirements such as the preparation and submission of prudential reports, keeping the required reserves, exposures and even the sectors of credit administration are all crucial in ensuring growth and sustinability of MFIs in Ghana. The BoG, when furnished with such reports, would be informed and be able to provide intervention mechanisms to assist

MFIs deal with threats of potential collapse before escalation to levels beyond control.

- MFIs must ensure strict adherence to regular loan monitoring. Loan monitoring forms a crucial part of the whole credit administration process. With proper and regular loan monitoring, default rates could be very minimal. Without it, even some customers with repayment potential would deliberately default. Credit policies of MFIs must therefore be regularly updated to cater for the ever changing needs of their clients
- Further research should be done using the junior staff and clients of the company to understand the causes of the MFI’s collapse from the grassroots perpective

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APPENDIX

QUESTIONNAIRE FOR MANAGEMENT

The following questionnaire is meant for data collection for academic study. Your response to this questionnaire will be highly appreciated and treated with utmost confidentiality.

1. What is your educational background?

   ………………………………………………………..………………………

2. What was your position in Noble Dream?

   ………………………………………………………..………………………

3. Did you have any formal training in the position you held at Noble Dream?

   (a) Yes [ ]   (b) No [ ]

4. Did you have any prior experience pertaining to the position you held at Noble Dream?

   (a) Yes [ ]   (b) No [ ]

5. Did you have any formal training in any activity of microfinance?

   (a) Yes [ ]   (b) No [ ]

6. If Yes to the above, in which of the following areas did you have your training?

   (a) Customer service [ ]   (e) Risk management [ ]

   (b) Credit [ ]   (f) Operations [ ]

   (c) Accounts [ ]   (g) Human Resource [ ]

   (d) Finance [ ]   (f) Management [ ]

7. In your opinion, which of the following factors accounted for the collapse of Noble Dream Microfinance Limited?

   (i) High interest rate on investment [ ]   (vii) Inadequate loan monitoring [ ]

   (ii) Overtrading [ ]   (viii) Poor credit appraisal [ ]

   (iii) Diversion of funds [ ]   (ix) Willful loan default [ ]

   (iv) Poor corporate governance practices [ ]   (x) Lack of qualified staff [ ]

   (v) Ineffective Board [ ](xi)Business failure [ ]

   (vi) Non-compliance with operational policy [ ]

8. How will you rank the following factors as causes of the collapse of Noble Dream, using a scale of 1 to 5, with 5 being the highest and 1, the lowest?

	1	2	3	4	5
High interest rate on investment					
Overtrading					
Diversion of funds					
Business failure					
Poor credit appraisal					
Inadequate loan monitoring					
Willful loan default					
Lack of qualified staff					
Non-compliance with operational policy					

9. What were the measures the company adopted to manage the emerging failing situation?

10. Did Bank of Ghana (BoG) pay Noble Dream frequent monitoring visit?

    (a) Yes [ ]   (b) No [ ]

11. What role did BoG play during the crisis?