KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

FINANCIAL INCLUSION AND THE THREAT OF COLLAPSING MICROFINANCE INSTITUTIONS IN KUMASI METROPOLIS

BY

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DECLARATION

I hereby declare that this submission is my own work except for references which I have duly acknowledged towards the MBA degree and that to the best of my knowledge it contains neither materials previously published by another person nor materials which has been accepted for the award of any other degree.

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CERTIFICATION

I hereby certify that this thesis was supervised in accordance with laid down procedures by the University.

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Supervisor's name Date

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DEDICATION

I dedicate this work to my dear wife, Hannatu, my son, Raif Hiara and my entire family for their relentless and continuous support and prayer.

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ABSTRACT

The frequent collapse of microfinance institutions in the country raises eyebrows about the sustainability of such institutions in Ghana. This study however assessed the concept of financial inclusion and the threat of collapsing microfinance institutions in the Kumasi Metropolis. Through an exploratory survey design, eighty-eight respondents participated in the study. The findings of the study proved that the respondents have had transactions with microfinance institutions within the Kumasi Metropolis for a considerable number of years. However, respondents also have other accounts with other commercial banks within the Kumasi Metropolis. Further, respondents had either heard or witnessed the collapse of microfinance institutions in the Metropolis which has affected their mindset about the operations of microfinance institutions negatively. Because of the negative perceptions that respondents have about the collapse of microfinance institutions, they are not willing to recommend them to other people and moreover respondents are not willing to continue transacting business with them because of their frequent collapse. The study also found that, the collapse of microfinance institutions in the country has also affected the operations of microfinance institutions because consumers are afraid of investing their money into the operations of microfinance institutions for fear of losing them. That notwithstanding, it was evident that, microfinance institutions are constantly putting measures in place to attract the rural and urban poor to do business with them by enticing them with attractive packages that will motivate them to save and also acquire loans for their businesses. The study therefore recommended the need for Bank of Ghana to publish a list of microfinances that are operating with required license so that consumers will be able to identify the bad nuts which are not operating with licenses and hence avoid transacting business with them.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

As indicated by Fernando (2007), a man is considered to have access to financial and related services if he or she uses formal or informal financial services for an appropriate purpose and at relatively affordable cost when these services are needed. Thus, access to credit in developing nations has been considered as an essential, such as water or basic education (Beck & de la Torre, 2006; Leeladhar, 2005). This is on the grounds that, when a dominant part of the populace becomes acquainted with funds, it serves to lessen destitution and thus contribute towards economic development. In the advanced economies, financial services are available to a most of the citizenry (Peachy and Roe. 2004). However, in less developed nations such as Ghana and other middle and lower income countries, around one-fifth or 20 percent of the populace have access to some form of formal financial services (World Savings Banks Institute, 2004).

With the growing urbanization and the policy direction by most central banks of countries, having access to finance in both rural and urban areas are on the ascendancy in many developing countries of which Ghana is inclusive. Measuring access to finance apparently difficult on account of very nature of preference or choice of individuals towards services of financial institutions.

Upon realising the importance of finance to the populace and most importantly the majority who have been excluded from formal financial institutions, most governments worldwide are advocating for financial inclusion which brings formal financial institution to the majority who have been excluded for centuries. According to Price Waterhouse Coopers (PWC, 2013), there exist so many ways of defining financial inclusion. “It is generally, seen as the situation in which all people have access to the required, desired financial products and services in order to manage their finances effectively. This is attained through increased financial literacy and capacity on the part of the consumer and access to financial products, services, and advice from financial service suppliers”.

PWC (2013) again defined financial inclusion from the perspective of Small and Medium Scale Enterprises as “the extent to which Small and Medium Scale Enterprises access the desired financial services, products, or advice that (1) have been tailored for their specific needs, (2) supplied by institutions with commercial or universal banking licences, and (3) at prices that are reasonable and also affordable”. Financial inclusion is the availability of banking services at affordable costs to the disadvantaged section of the population. Financial inclusion emphasizes access to a host of financial services, which includes savings, insurance, loans, credit etc, which are supposed to help the poor people to be lifted out of poverty”. “Financial inclusion is of significant interest internationally because of the close linkage it has to social inclusion” (PWC, 2013).

As stated by Beck and Delator (2006) and Littlefield et al (2006), the most essential part of financial services sector in a locality is normally measured by number of individuals who have and operate accounts at commercial banks. This is on the grounds that bank accounts empowers individuals to perform critical financial activities such as savings, access to various credit facilities, taking loans, insurance, money transfer and so forth. Along these lines, having a bank account influences one's access to so many other financial products and services (Mohan, 2006). Nonetheless, owning a bank account on its own could not be regarded as a precise indicator of being included financially as people may open a bank account without necessarily utilising the bank account. According to International Finance Corporation (IFC, 2013), forty-four percent of adult Ghanaians are financially excluded. This thus implies that forty-four percent of the population do not engage in any activities with any financial institutions.

According to IFC (2013), a survey revealed that the level of knowledge of financial institutions, their services, and products among adults living in urban areas in Ghana is low and that even when they are knowledgeable about financial services, their knowledge often does not translate into appropriate behavioural change.

IFC (2013) reported that in January 2009, Ghana's National Forum on Microfinance embraced the National Strategy for Financial Literacy and Consumer Protection in the Microfinance Sector, which puts Ghana among the first nations in Africa to have a devoted national procedure on financial literacy. This financial literacy on the part of the Forum on Microfinance was geared towards financial inclusion. MFIs with their micro loans and other products targeted at the informal sector were seen to have the potential to increase financial inclusion.

Microfinance is comprised of the provision of financial services as well as the administration of small quantities of money through a variety of products and a system of intermediate roles that are geared at low income clients (Asiama & Osei, 2007). The products include loans, savings, insurance and other related financial services and products. Adjei and Arun (2009) asserted that the vision of the founders of microfinance was to supply formal financial services to poor people, who have been neglected by banks because their savings are small, their loan demand are small, and they lacked collateral security. This inhibited their ability to commence their own businesses, finance emergency needs, acquire assets as well as cover themselves against illness and disasters that befall them (Zeller & Meyer, 2002).

From the foregoing background, it is of no doubt that microfinance is indeed aiding in the quest for financial inclusion for the majority of Ghanaians who have been financially excluded since time immemorial. It is therefore based on this background that this particular study seeks to assess financial inclusion and the threat of collapsing microfinance institutions in the Kumasi Metropolis.

1.2 Problem Statement

According to Simanowitz and Brody (2004, p.1), microcredit is a key strategy in reaching the United Nations Millennium Development Goals (MDGs); eliminating extreme poverty and hunger; and in the building of a global financial systems that meet the needs of the most poor people." Microfinance indeed plays crucial roles in all economies of the world and most importantly that of developing countries for which most West African countries and most importantly Ghana is inclusive. In most developing countries where the rate of people who don’t have access to the formal and financial institutions and most importantly the banking sector, Microfinance has played this role thus ensuring financial inclusion for majority of people who have been financially excluded since time immemorial.

However, due to the huge patronage of the Microfinance institutions by both individuals and the business entities, there are huge number of these that collapse after few years of their inception due to a number of reasons. According to Ghana Broadcasting Corporation (GBC, 2014), as high as 46 microfinance institutions collapsed in the year 2013 alone. Ghana Business News (GNB, 2013) and Micro Capital (MC, 2013), also reported that for the first quarter of 2013 alone, about 30 microfinance institutions in the country collapsed. This could even give an indication that, the 46 microfinance institutions that GBC (2014) reported collapsed in the year 2013 could be an understatement if the report by GNB (2013) and MC (2013) is anything to go home with.

These rampant collapse of Microfinance institutions in the country according to Livingston (2014) at the launch of McOttley Unit Trust in Accra asserted that the general investment culture in Ghana is quite undeveloped and that Ghanaians do not have the culture of investing. Besides that, there is a general risk aversion to investment in Ghana. Ghanaians do not want to invest in instruments when they cannot really tell whether there is a guaranteed interest for them and rampant collapse of such institutions prevents Ghanaians from investing in such investment institutions and Microfinance in general. GBC (2014) also reported that the rampant collapse of Microfinance in the country for the year 2013 could be attributed to the depreciation of the cedi, high cost of living, and upward adjustment of the capital requirement by Bank of Ghana and inexperience on the part of the management of such Microfinance institutions. According to the Council Chairman of the Ghana Microfinance institutions, Network, GHAMFIN, Emmanuel Darko as reported by GBC (2014), these reasons resulted in rampant withdrawals of deposits by clients leading to the collapse of the institutions.

These massive withdrawals of deposits by clients leading to the collapse of some Microfinance institution thus put the clients of other performing Microfinance in jeopardy. This is because most clients assume that should they not withdraw their deposit, they may lose these funds. Graphic Online (2013) reported that majority of clients who had huge deposit with the 30 Microfinance institutions that collapsed in the first quarter of 2013 could not get a refund of their deposits as the owners of these collapsed Microfinance institutions could not be located, or where they were, they failed to raise the requisite funds to pay the deposit of their customers.

It is thus based on the forgoing problem statement that this study is aimed at assessing whether the frequent collapsing of microfinance institutions has any negative effect on the effort to get the unbanked to patronise or have access to financial/banking services. Thus, is the current trend of collapsing MFIs likely to have any effect on the financial inclusion as has been one of the main aim of Microfinance institutions?

1.3 Research Objectives

1. To find out the extent of patronage of microfinance products and services by consumers in the Kumasi Metropolis.
2. To find out the perception of consumers about the collapse of microfinance institutions in the Kumasi Metropolis.
3. To ascertain whether the collapse of Microfinance Institutions affects the growth and expansion of existing Microfinance institutions.

1.4 The Research Questions

1. What is the extent of patronage of microfinance products and services by consumers in the Kumasi Metropolis?

2. What is the perception of consumers about the collapse of microfinance institutions in the Kumasi Metropolis?

3. Does the collapse of Microfinance institutions affect the growth and expansion of existing microfinance Institutions?

1.5 The Significance of the Study

This study is significant as it seeks to contribute to already published research papers in the areas as well as policy and practice.

The finding of this study will become a point of reference to students and other individuals in the field of academia by providing empirical evidence with regards to issues concerning the Microfinance, the collapse of Microfinance and Financial Inclusion in the country and other parts of the globe.

Secondly the findings of the study will contribute immensely in the area of policy formulation. This is because; the empirical evidence gathered on the issues of concern regarding the collapse of Microfinance in the country and its effect on Financial Inclusion will inform policy makers in the Microfinance industry to come up with policies that will enhance the sustainability of microfinance, hence improve on financial inclusion.

With regards to practice, the findings of the study will provide much insight into the operations of Microfinance institutions on the issue of collapsed Microfinance institutions and make recommendations on how to get back the financially excluded to patronise the products and services of these Microfinance institutions.

1.6 Scope of the Study

The scope of the study shall cover managers of SMEs and other individuals who maybe prospective clients of Microfinance institutions in the Kumasi Metropolis. As per the scope of the study, the findings of this study may not be generalize to other parts of the country

1.7 Limitations of the Study

The limitations of the study as identified by the researcher included the following:

Firstly, time was a major constraint to the researcher in the sense that, combining the research work with other academic works was very cumbersome. In this vein, the study could not cover all areas in the Kumasi Metropolis to the satisfaction of the researcher.

Further, the data collection process was also a major limitation to the study. The target respondents which comprised of managers of SMEs were mostly too busy to give audience to the researcher. The researcher therefore had to dwell on other individuals who had some knowledge about the activities of microfinance institutions in the Kumasi Metropolis to respond to the questionnaires.

Thirdly, financial constraint was a limitation in the sense that, the researcher wanted to extend his study to certain parts within the Kumasi Metropolis but that was not possible because of less finances.

1.8 Organization of the Study

The study is categorised into five (5) chapters. The first chapter gives a background to the research, the problem statement, objectives of the research, the questions the research seeks to answer and the relevance and importance of the study as well as its scope and limitations.

Chapter two reviews existing literature by reviewing existing theories related to the subject matter of the research. Other empirical findings related to the study were also reviewed.

The third chapter constitutes the methodology used to carry out the research and contains research design, techniques used for sampling the respondents, materials used for data collection/procedure, data analysis as well as ethical considerations that guided the study.

The fourth chapter of the paper constitutes the results of analysis of data gathered from the field on the study and used the Statistical Product and Service Solutions Software (SPSS) for this analyses. Data was analysed and interpretation was done in accordance with the aims and objectives of the study.

Chapter five summarises the findings of the research, conclusion drawn from these finding as well as some recommendations for further studies and research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section of the study presents the literature review on the constructs understudy with specific literature on the concept and definition of the constructs under which the study is being conducted, the scope of financial inclusion, the need for financial inclusion, measuring financial inclusion and data on financial inclusion. This section also entails subheadings such as discrimination in financial inclusion, global concerns towards financial inclusion and financial inclusion in Ghana. Finally, the study has also done a concise review on microfinance in Ghana.

2.1 Financial Inclusion

2.1.1 Concept and Definition of Financial Inclusion

As per Gandhi (2013), the term 'Financial Inclusion' was initially authored in British vocabulary when it was found that almost 7.5 million persons did not have a bank account. Defining financial inclusion is viewed as pivotal from the perspective of building up a theoretical structure and recognizing the underlying variables that lead to low level of access to financial services (Raju, 2006 referred to in Gandhi, 2013).

According to the Alliance of Financial Inclusion (AFI, 2011), "financial inclusion refers to all initiatives and actions that aim at making formal financial services and products available, accessible and affordable to all segments of the population". Thus according to the AFI, in financial inclusion particular attention should be directed to the section of the citizenry, who have in the past been side lined from the formal financial institutions due their particular characteristics; such as the level and volatility of their income, gender, age, location, type of activity and level of financial literacy. In general, the concept of financial inclusion goes beyond just improved access to credit to include improved access to other savings schemes and product that mitigate risk, a well-functioning financial infrastructure that allows individuals and companies to engage more actively in the economy, while protecting consumer's rights. In so doing, there is a need to harness the untapped potential of the individuals and businesses currently ignored by these formal financial services or underserved, and enable them to develop their capacity, strengthen their human and physical capital, engage in income-generating activities, and manage risks associated with their livelihoods. Financial inclusion goes beyond improved access to credit to encompass enhanced access to savings and risk mitigation products, a well-functioning financial system that allows the individuals and companies to engage more actively in the economic and financial system, while protecting the rights of the users.

2.1.2 The Scope of Financial Inclusion

Rabha (2012) expanded financial inclusion in two main ways. These are:

(a) Through state initiated intervention by way of statutory enactments, and

(b) Through effort by the banking sector itself may faction out various strategies to bring the unbanked within the banking sector who are excluded from the financial system. The regulators or government may step in where banks are not giving some areas the desired attention in order to remedy the situation.

2.1.3 The Need for financial inclusion

i. Macro-level

Despite the fact that the total count of bank accounts held by banks in the world is higher than the total population of the world, (Ardic, Heimann and Mylenko 2011 refered to in Jaising, 2013), 2.5 billion individuals or a large portion of the world's adult populace still stay unbanked (Alberto Chaia 2009 referred to in Jaising, 2013). Financial development has since a long time ago been concerned with assessing the level of penetration of financial services, i.e., the quantity of domestic credit given to the private sector in relation to the Gross Domestic Product. Be that as it may, indication of level of access to finance services being directly connected to equity and poverty mitigation has pushed the breath of financial access, i.e., financial inclusion, as an imperative strategy reflection (Hannig and Jansen 2010). As needs be, financial inclusion becomes a vital driver for human advancement.

ii. Micro-level

Lack of accessibility to financial services influences the capacity of the poor individuals to saving and investments, thereby exposing them to potential loss as well as preventing them from venturing into entrepreneurial related activities. Economic adversities tends to have more effects on the poor extremely since they do not have access to appropriate financial services that can assist them mitigate the risk such as bank deposits and insurance. These adversities could be very disastrous. Financial inclusion consequently permits the poor to save cash and gain an interest on their deposits, thereby transforming idle and unproductive credit into beneficial capital, which is not just great and worthwhile to the poor people within the economy but also for the sound of the economy at large (Hannig and Jansen 2010).

2.1.3 Measuring the Level of Financial Inclusion

Hanning and Jensen (2010) recognized and identified four (4) main areas to measure the level of financial inclusion in a nation. The areas as determined by Hanning and Jensen (2012) incorporates: access, quality, usage and impact of financial service.

1. **Access**

This measures the capacity of the targeted populace who are to be availed of the requisite products and services from the formal financial sector. This would also among others include, the supply side, variety of the type of financial services on offer such as loans, savings, investment, payment and clearing system, etc.In order to properly evaluate the access and availability, potential barriers including physical hindrances and infrastructural concerns also must be identified. In determining the level of access, the most essential determinant would be to measure the extent of the populace that have access to a formal bank account. Jaising (2013) reported that "the amount of financial inclusion as defined by the section of the populace with a bank account has a considerable positive effect on human advancement". In measuring this, carefulness must be taken as larger part of the individuals patronising financial services and products may have more than one bank account with either a single or multiple banks (Hanning & Jensen, 2012).

2. **Quality**

This assesses the relevance of financial services or products to the lifestyle needs of the customer. Quality envelops the experience of the buyer, exhibited in attitudes and opinions toward those services that are made available to them. The measure of quality and value of financial service in this manner would be used to gauge the nature and depth of the relationship between the financial service providers and the consumers as well as the choices that are made available to the consumers and the level of understanding of those choices and their implications on the consumers (Hanning & Jensen, 2012).

3. **Usage**

Aside a mere acceptance of banking products and services, usage of financial services emphasise more on the durability and seriousness of financial products and services utilised. Hence, deciding the usage of financial products and services requires extra insights about the consistency, recurrence, and the duration of the use of the service of the financial products and services over time. To assess usage of financial products and services, it is crucial that the data reflects the user's perspective, that is, data accumulated through a demand-side survey (Hanning & Jensen, 2012).

4. **The impact**

The Impact of financial inclusion is hard to quantify. On the other hand, measuring the changes in the lifestyles of the populace that can be ascribed to the usage of financial products and services poses serious practical challenges to the proper design of a survey (Hanning & Jensen, 2012).

2.1.4 Data on Financial Inclusion

A number of institutions, mainly donor-funded, have invested significant resources in measurement of financial access and usage, globally and in Africa, with a particular focus on the supply side. Financial inclusion data has traditionally been separated into supply and demand-side information. Supply-side data comes from providers of financial services, while demand-side data involves interviews with end-users of products: individuals, households, and firms. Central Banks often collect some supply-side data as part of their supervision duties for regulated institutions, and this can be a good source of information at the national level. However, supply-side data provided by central banks or supervisory bodies on the number of accounts and Automated Teller Machines (ATMs) in a country is not detailed enough to provide information about how many people have accounts which could be attributed to lots of people having multiple accounts and how access varies by region, income level, and other variables. In some countries central bank data may not provide a useful level of granularity about financial access. Although supply side data shows good coverage of the prevalence of financial services, it does not tell us much about access and usage, or about why people do or do not use these formal services. Accurate and concise data is especially lacking for majority of countries in Africa. Since central banks are a primary provider of financial data, country officials may find that the information is not accurate enough and does not extend far beyond what is available at the national level. While there is relatively good data coverage of banks, data on prevalence, deposits, loans, and other indicators from cooperatives, microfinance institutions (MFIs), and insurance providers is harder to find. Information on regulations for consumer protection is also lacking (AfDB, 2013).

Despite the recent growth of the financial sector in Africa, many individuals and firms are still excluded from access to formal financial services. Analysis of the usage of (and access to) financial services by adults and enterprises shows that African countries lag behind other developing economies in both aspects, and that cost, distance, and documentation requirements are important obstacles.

2.1.5 Discrimination in Financial Inclusion

There are numerous challenges that obstruct some individuals in the population from becoming financially included. These challenges and reasons differ between nations and regions, however, majority of these common challenges emerge that generally represents a mic between supply-driven and demand-driven factors for which some are explained below.

Age Discrimination

Young people face significant challenges or barriers to financial inclusion. More than 1.2 billion individuals are aged between 15 and 24, yet just 4.2 million of these young people are financially included (that is have access to financial products and service) (Allan et al, 2014). Around the world, unemployment rates for young people speak the truth as it is over two times higher than for the adult population and poverty is worldwide. Indeed, even among working youth poverty is high, as 28 percent of every young worker are being paid below $1.25 a day. With numerous young people not having access to enough resources to support their families implies a higher likelihood that the unfriendly conditions they face will to be inherited by their children. Access to proper financial products and services can play an essential part in supporting young people as they grow into adulthood and begin their working lives successfully and supporting them to end up becoming productive and financially active individuals from their communities and societies. Access to saving products specifically empowers the building of assets and promotes the management of funds in a sound manner, which is most likely to continue throughout the individual's lifetime. The general perception is commonly that young people have no compelling reason to handle cash and that they just take part in limited financial transactions. Allan, Massu and Svarer (2014), revealed that "young people of all ages handle cash on a usual, frequently day by day basis and a large portion of them save some portion of their money in order to support goals such as paying for school supplies and fees or starting a new business" (Allan, Massu & Svarer, 2014).

Formal financial products and service providers are incline to perceive young people as highly risky and thus not able to judiciously handle money. Young people under the age of 18 years, are also most often legally obstructed from opening a formal bank account. Young people are likewise more prone to relocate in quest for work, this makes it more cumbersome to continue to access informal financial services such as community based financial service. Numerous young people likewise do not have a the requisite understanding of financial related transactions, which together with their vulnerable position society as young people make them more prone to exploitation (Allan, Massu & Svarer, 2014).

Gender Discrimination in Financial Inclusion

According to the AfDB (2013), research proves that females reinvest up to 90 percent of their wages and salaries in their families as compared to between 30 to 40 percent by males (Borges, 2007). Notwithstanding being perceived over the world as superior in credit risk management, ladies are more prone to be excluded from the financially system that their male counterparts.“In developing countries, 46 percent of men are reported having an account with a formal financial institution as compared to just 37 percent of females” (Klapper & Demirguc-Kunt, 2012). The unjustifiable and unequal distribution of power, funds and responsibilities which favours the males often leads to a discrimination in policies and procedures which hinder females’ access to financial service and products. For Example, Allan, Massu and Svarer (2014) observed that financial products and services such as opening a bank account may sometimes require the husband’s signature or evidence of property right. “Gender norms can also hinder the mobility of women and thus restrict them from having access to the public space of a bank and lower wages and income can make having access to financial products and services unfavourable for women". Allan, Massu and Svarer (2014) likewise reported that in Africa for instance, females own only a small portion of agricultural land, receive 7 percent of extension services and have access to below 10 percent of agricultural credit that are offered to small-holder farmers (International Labor Organization, 2009). As a result of this, accessing financial services that require securities such as lands and others for collaterals would be difficult for women than for men. In any case, it is perceived that women can be very effective power for economic growth as workers, entrepreneurs and property owners,. As indicated by the Food and Agriculture Organization of the United Nations (FAO) referred to in AfDB (2013), closing the gender gap in gender access to financial services could help relieve women.

Low and Unpredictable income

Klapper and Demirguc-Kunt (2012) reported that "roughly 30 percent of people the world over who currently have no access to formal financial products and services report the lack of sufficient funds to have a bank account as their biggest barrier to financial inclusion". Surveying a group of people reached through Banking on Change byAllan, Massu and Svarer (2012), 36% of group member reported low income as a key factor serving as a hindrance to financial inclusion. Poor people most of the time believes they do not have enough income to enable transact with formal financial institutions and are worried about the security requirements when they need to access credit facilities. Sporadic and inconsistent flow of income further discourage these poor people from availing themselves for formal financial services, regardless of the way that the services of most financial institutions are useful for people with irregular and unreliable income. As indicated by Allan, Massu and Svarer (2014), studies carried out in Kenya revealed that individuals with more steady income are more prone to be financially included, despite the fact that these individuals can seemingly adapt better the their colleagues with lower incomes, without banking services simply because their income is more unsurprising.

Transaction cost

Another significant hindrance to financial inclusion is the cost of engaging in it. This cost could be in two folds (for the bank and the needy individuals to whom the administrations will be outfitted at). For most banks, the expense of transacting business with poor people is higher in light of the fact that they need to keep up a high number of accounts which have a low volume of financial transaction. This by and large makes having an outlet or branch in poor communities and societies not feasible. Rather banks have had a tendency to concentrate on the middle to high income earning individuals, with multinational banks in particular being perceived as 'the rich people's bank'. For poor people, banking is quite expensive as they find bank charges to be high relative to their volume of money and their transaction. Also, due to the distance of the rural areas from the urban areas where majority of these financial institutions are situated, the cost of travelling to these urban areas to transact business also adds cost to their overall transaction cost. Another cost to the poor people in travelling to the urban areas to transact business is the form of a day's labour that they may risk forgoing. Klapper and Demirguc-Kunt (2012) reported that universally, 20 percent of the unbanked people have identified distance as key hindrance to financial inclusion and this rises to about 31 percent in sub-Saharan Africa.

National and International Barriers

National and international regulatory policies are regularly cited to as one of the hindrances to broader formal financial inclusion for the poorest people in the world. These range from micro to macro issues. For example, at the national level, banks frequently oblige people to register themselves with other governmental institutions in order to meet regulations around the anti- money laundering and to combat the financing of terrorism. Yet most of the times, poor people and especially ladies, lack birth certificates and formal identity documentation. In Ghana where housing and street numbering are not effective and non-existent at some locations especially at places occupied by the poor, requesting for a house address from a man living in such a place would also put individuals off from accessing financial services

Lack of Financial Literacy

The segregation of poor people from financial services frequently brings about lack of understanding of the financial system and issues, which thus push them to separate themselves further separate themselves from formal financial institutions. An investigation of how Village Savings and Loans Associations (VSLAs) could connect to financial institutions in Kenya revealed that although banks had some products and services which were tailored towards needs of poor people, however, these poor people had no knowledge about the products and services or had a wrong understanding of those services and therefore these poor people were reluctant towards the usage of such product and services designed with them in mind (Allan et al, 2014). Evidence likewise proves that the poor literacy in finance signifies a noteworthy barrier to the assessment and proper utilisation of formal financial services (Allan et al, 2014). Poor financial literacy limits the capacity of people to be aware of financial services and products, make informed choices and take effective actions that could improve their financial prosperity.

Mistrust and Inappropriate Product

Absence of understanding about the formal financial sector alongside an absence of suitable products and services and procedures that satisfy the needs of the poor people in society mean there exist limited opportunities for them to participate in the financial system.

This is in spite of the fact that studies progressively indicates that poor people would like to get to access to scope of financial products and services outside their savings and credit, including insurance and retirement annuities – a pattern that is as of now being found in India

2.1.6 Global Concern towards Financial Inclusion

The Alliance for Financial Inclusion and The Maya Declaration (2011), could be said to be two of the major international concerns towards financial inclusion. The Alliance for Financial Inclusion is a body (network of countries) that enables the exchange of knowledge among central banks and other regulatory organisations in developing and emerging countries. The Alliance for Financial Inclusion acts as a drive to energize various national banks to make solid duties to financial inclusion in its member countries. The Maya Declaration was established at the Alliance for Financial Inclusion's (AFI) Global Policy Forum in 2011, with its network of members collectively adopting its financial inclusion policy principles. The Maya Declaration was the first global attainable set of commitments and guidelines by developing and emerging countries policy makers to solve the economic and social potential of the almost 2.5 billion of the world population which are poor and financially excluded to have greater access to financial service and thus greater financial inclusion

The Maya Declaration

The Maya Declaration (2011) is the AFI member commitment to financial inclusion, it is applauded and valued as the first global attainable set of obligations by developing and emerging economies to address accountable financial inclusion. The Maya Declaration has been endorsed by 108 countries, which represent over 75 percent of the world's population that does not engage in financial products and services including Ghana. Over 40 Alliance for Financial Inclusion (AFI) member countries have committed to the principles and committed to more than 70 initiatives following the areas outlined in the declaration. Each of these countries make measurable commitments towards the following four broad areas proven to increase financial inclusion:

i.) **Creating an enabling environment to harness new technology.** Many believe that a phased approach with small payments serving as an entry to formal financial services followed later by a suite of financial services, such as savings, credit, and insurance, will spur large socioeconomic gains by increasing access and lowering costs of financial services.

ii.) **Developing proportionate regulatory frameworks.** Implementing a proportionate regulatory framework strengthens connections between financial inclusion, integrity, and stability.

iii.) **Connecting consumer protection and education.** Integrating consumer protection and consumer empowerment is a key pillar of financial inclusion.

iv.) **Collecting data:** Data will be used to inform policy making and track results.

2.1.7 Financial Inclusion in Ghana

Regarding getting access to finance, just 29 percent of the adult populace of Ghana has an account at a formal financial establishment, in 2011 which is marginally higher compared to the Sub-Saharan African average of 24 percent. However, Akudugu (2013) also reported that about 40 percent of the research participants are included in the formal financial market of Ghana with the remaining 60 percent of them excluded. This implies that the level of financial inclusion in the formal financial market in Ghana is less than the global financial inclusion index of 50 percent (Demirgüç-Kunt & Klapper, 2012). This 40% however reported by Akudugu (2013) is higher, compared to the Sub-Saharan Africa average of 24 percent.

Jaising (2013) likewise reported that just 16 percent of Ghanaians had savingswith a formal financial institution in 2011 and only 6% of Ghanaians had taken a formal loan although as many as 29 percent of the population have taken loans from family and friends. As indicated by Jaising (2013) this unmistakably demonstrates that there is an interest for these loans which financial institutions are either unable or unwilling to give to the poor people. Variables like gender, education and geographical location likewise have a tendency to influence the level of financial inclusion as reported by Akudugu (2012). In Ghana, the percentage of males having bank accounts with a formal financial institution is marginally higher compared to their female counterparts. Nevertheless, the level of financial inclusion of females is not just higher than the rest of Sub Saharan Africa but other nations grouped under as 'Lower Middle Income' categories, as indicated by the World Bank classifications. The biggest determinant for this access to financial products and services by females in Ghana according to Akudugu (2012) is as a result of the level of education. People who have had at least a secondary education have higher a tendency to utilise more financial products and services. Additionally, individuals in urban communities have more access to financial services than their counterparts in the rural areas of the country.

2.2 Microfinance in Ghana

2.2.1 Evolution of the Microfinance Sub-Sector in Ghana

With almost 30 percent of the Ghanaian population below the poverty line, microfinance has been distinguished as a vital method for giving financial services and products to the populace. It is along these lines that current and past governments of Ghana have perceived microfinance as vital to accomplishing the more prominent objective of poverty reduction. Through microfinance, the different governments have aimed to give poor people, who don't have access to the formal financial services and products with more prominent access to customised financial services. In an article titled "Microfinance Default Rates in Ghana: Evidence from Individual-Liability Credit Contracts" issued by the Micro Banking Bulletin, Gerald Pollio and James Obuobie expressed that "Microfinance Institutions (MFIs) at present give financial services to an expected 15 percent of the nation's population as opposed by 10 percent for the commercial banks" (Micro Banking Bulletin No. 20, September 2010). This statement reveals that an industry that has achieved a substantial growth in a country where financial inclusion is very low especially among rural dwellers.

The Government of Ghana is dedicated to the objectives of the Millennium Development Goals and one of the approaches is the building of a robust and sustainable microfinance industry which addresses lessening poverty, the empowerment of women and household well-being thereby ensuring financial inclusion for categories of its citizenry who have been financially excluded for a long time. Small and Medium Enterprises constitute around 66% of the work force in the nation, in this manner, represents a vital economic force (Adjei, 2010). Increasing the access to financial services by this group will therefore deepen the financial sector and also link them to the mainstream economic system. Indeed, the concept of microfinance is not new in Ghana. The tradition of people saving and /or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures has always existed.

Throughout the years, the microfinance sector has flourished and advanced into its current state on thanks to various financial sector strategies and programmes carried by both the past and the current government since independence. Some of the strategies include:

i. Subsidized credits in the 1950s by the Nkrumah government;
ii. The creation of the Agricultural Development Bank specifically to address the financial needs of the agricultural sector;
iii. Establishment of Rural and Community Banks (RCBs) concept,
iv. Introduction of regulations for commercial banks to set aside 20% of total portfolio to promote lending to agriculture and small scale industries in the 1970s and early 1980s;

v. Departing from a restrictive financial sector regime to a liberalized regime in 1986;

vi. The creation of different categories of non-bank financial institutions, such as savings and loans companies, and credit unions through the promulgation of PNDC Law 328 in 1991.

vii. The promulgation of regulations by the Bank of Ghana in 2011 to guide the Microfinance sector and categorising them into tiers, I, II, and III.

These policies have led to the emergence of three broad categories of microfinance institutions. These are:

i. Formal suppliers of financial services such as savings and loans companies, rural and community banks, as well as some development and commercial banks;

ii. Semi-formal suppliers which include credit unions, financial non-governmental organizations (FNGOs), and cooperatives;

iii. Informal suppliers of financial services such as susu collectors and clubs, Rotating and Accumulating Savings and Credit Associations (ROSCAs and ASCAs), etc who have been compelled to form associations for ease of regulations.

In terms of the regulatory frameworks, rural and community banks as well as savings and loans companies are regulated under the banking Acts of 2004 (Act 673), while Finance and Discount Houses are controlled under the Non-Bank Financial Institutions Act (2008) Act 774. The Bank of Ghana has since 2011 designed operational guidelines and licensing requirements to help streamline the operations of MFIs in the nation.

2.2.2 Various categories of Microfinance Institutions in Ghana

The key stakeholders of Microfinance institutions in Ghana are the Rural and Community Banks, Savings & Loans companies, Credit Unions and Financial Non-Governmental Organizations.

Rural and Community Banks

Rural and Community Banks are unit banks which are owned and managed by residents in the community in which the bank resides. They are enlisted under the Company's Code and are licenced by the Bank of Ghana to take part in the business of banking. Being unit banks, they are not permitted to open branches but rather are allowed to open agencies, within their catchment areas with the goal of mobilising credits in their catchment areas. The fundamental functions of Rural Banks are the mobilisation of savings and the extension of credit to meriting clients in their area of operation. It is additionally the conviction of the Central Bank that through their financial intermediation rules, Rural and Community Banks will go about as impetuses for economic growth in the rural parts of Ghana. Rural and Community banks are additionally not allowed to engage in foreign exchange operations (BOG, 2004).

Savings and Loans Companies

Savings and Loans companies (S&Ls) are deposit-taking institutions regulated by the Banks of Ghana under the Banking act, with a base capital much lower than that of the commercial banks but above Finance Houses and that of the rural and community banks. The approach of the NBFI Law, which earlier regulated the conduct of S & L business gave rise to a rapid growth and development of some Financial Non-

Governmental Organizations (FNGOs) into savings and loans companies operating in urban and peri-urban areas in the country..

They serve for the most part the economic active informal unbanked populace and offer custom-made products and services to suit this classification of the populace. They are confined to a restricted scope of financial services compared to the commercial banks mostly mobilising deposits, provision of loans to low income customers and SMEs, money transfer, and financial literacy. They use microfinance techniques to serve the greater part of their customers in the peri-urban areas with an average loan size higher than the other class of microfinance institutions.

Credit Unions

Credit unions are registered by the Department of Co-operatives as cooperative thrift societies in Ghana and are allowed to accept deposit/savings and grant loans only to their members. Accordinng to Arhin-Sam (2013), the first Credit Union in Africa was set up in the Northern part of Ghana in 1955 by the Canadian Catholic Missionaries. Credit unions have an established body known as Credit Union Association (CUA) which serves as a self-regulatory apex body for its member associations that have been duly registered.

Financial non-Governmental Organisations

Financial NGOs (FNGOs) are incorporated as companies constrained by guarantee under the Companies Code. They are thought to be the semi-formal system, in that they are formally registered. However, FNGOs are not licensed by the Bank of Ghana. FNGOs are for the most part mission-driven, and are particularly lively in poor communities. Their nature at reducing poverty leads them to grant multiple services such as microcredit, which remains their core operation to poor people though mostly on a small scale. They are not permitted to take deposits from donors, social investors and government programmes. Some of them however operate the susu scheme which permits people to save little sums of money on daily or weekly basis.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter provides the methodological and related concerns used in the course of this research and provide the basis for the steps taken. It comprises of the following sub-headings; the research design, population, sampling and sampling methods and techniques, data sources, instruments for data collection and ethical considerations.

3.1 Research Design

The research design of a study is the conceptual structure within which the study was conducted (Dawson, 2002). According to Creswell and Clark (2007), research designs are of much relevance because they guide the methods and decisions that researchers must make during their study. However, Trochim (2006) adds that, the research design serves as the glue which holds the entire research together. A research design is therefore used to structure the research, to show how all of the major parts of the research project work together to try to address the central research questions.

In this study the exploratory survey design method was used. The exploratory survey design is justified on the grounds that, the researcher seeks for an in-depth understanding of the concept of financial inclusion in the Ashanti Region of Ghana. The exploratory research design enabled the researcher to delve deeply into the concept of financial inclusion and how it affects the threats of collapsing microfinances in the Kumasi Metropolis.

3.2 Population

As defined by Sanrantakos (1997), “a research population is a well-defined collection of individuals or objects known to have similar characteristics”. All individuals or objects within a certain population usually have a common, binding characteristic or trait. In this study, the target population comprised of all individuals aged above 18years who are engaged in any productive activity in one way or the other in the Kumasi Metropolis of the Ashanti Region. In this regard, the population comprised of individuals from the government sector, those from the private sector as well as individuals who are self-employed.

3.3 Sample and Sampling Techniques

In survey research sampling is one of the most popular approach for data collection in the social sciences (Garson, 2012). This allowed choosing the subjects to measure in the research project. “A sample is a finite part of a statistical population whose properties are studied to gain information about the whole” (Webster, 1985). This is drawn from the study population which comprises the total constituents to be considered for a study. It is important that the study has an adequate and representative sample size. This is necessary in order to provide some level of assurance that the study has a good chance of detecting a statistically significant result if this is the true effect and also to ensure that adequate allocation and utilisation of resources. A study that has an inadequate and unrepresentative sample size will have a lesser chance or probability of detecting a statistically significant result and therefore may be a of waste valuable resources. A total sample of eighty (80) was considered for the study. The sample was carefully selected so as to represent all sectors of the target population. The sample was selected using the convenience sampling technique. This is because, with a survey of this nature, the researcher only had access to respondents based on their availability and willingness to participate in the study at the time of data collection.

3.3.1. Sampling Technique

This section discussed the techniques to be used in the sampling procedures. Both probability and non – probability sampling techniques was employed.

Probability Sampling

The type of probability sampling used was the Simple random sampling technique. According to Garson (2012), simple random sampling is a sampling techniques which allows data to be collected of which every person in the target population has the chance of been selected which might be known or not known to the researcher in advance. This was to give equal chance to all respondents to be selected to partake in the study.

Non - Probability Sampling

Purposive sampling technique was used as a non-probability approach specifically based on convenience and expert of knowledge related to the topic under study. According to Teddlie & Tashakkori (2003: 713) purposive sampling technique involve selecting certain units or cases “based on a specific purpose rather than randomly”. This was used in the selection of financial institutions and the experts involved in financial issues

3.4 Sources of Data

Primary and secondary data were used to conduct this study. Data gathered from the respondents through the administration of the questionnaire constituted the primary data whilst secondary sources of data consist of information gathered from textbooks, articles and journals.

3.5 Instruments for Data Collection

Questionnaires were used as the data collection instrument for this study. The questionnaire comprised of both open-ended and closed-ended questions. The open-ended questions gave respondents the opportunity to express their views on issues that they are asked about. On the other hand, the closed ended questions gave respondents the opportunity to choose from options provided as they express their opinions on the items in the questionnaire. The questionnaire was however sub-divided into three different sections. Section A comprised of the demographic data of the respondents which included gender, age, marital status, educational level and employment status. Section B of the questionnaire was related to issues concerning financial inclusion and also found out the attitudes of respondents towards microfinance institutions despite the collapse of many microfinance institutions in the country. The last section, C was dedicated to managers of microfinance institutions. It sought to find out whether the collapse of other microfinance institutions is affecting public confidence in them as well as their profitability and growth.

3.6 Data Analysis

Data gathered on the field for this study was analysed using the Statistical Package for Social Sciences (SPSS) software. The researcher made use of descriptive analysis where frequencies and percentages were most appropriate. The results were however presented by using charts and tables.

3.7 Ethical Considerations

The ethical issues that were considered in this study included informed consent, confidentiality and anonymity.

In terms of informed consent, all respondents were appropriately educated on the purpose of this study and then given the chance to decide on participation. Thus, none of the respondents were forced in any way to participate in this study.

On the other hand, confidentiality was ensured in the sense that, the responses attained for respondents were solely used for research purposes only.

With regards to anonymity, the researcher ensured that the identity of the respondents are safeguarded. In this regard, any information that sought to expose the identity of the respondents such as their name, e-mail address, phone number, residential address etc were excluded from the questionnaire.

CHAPTER FOUR

RESULTS

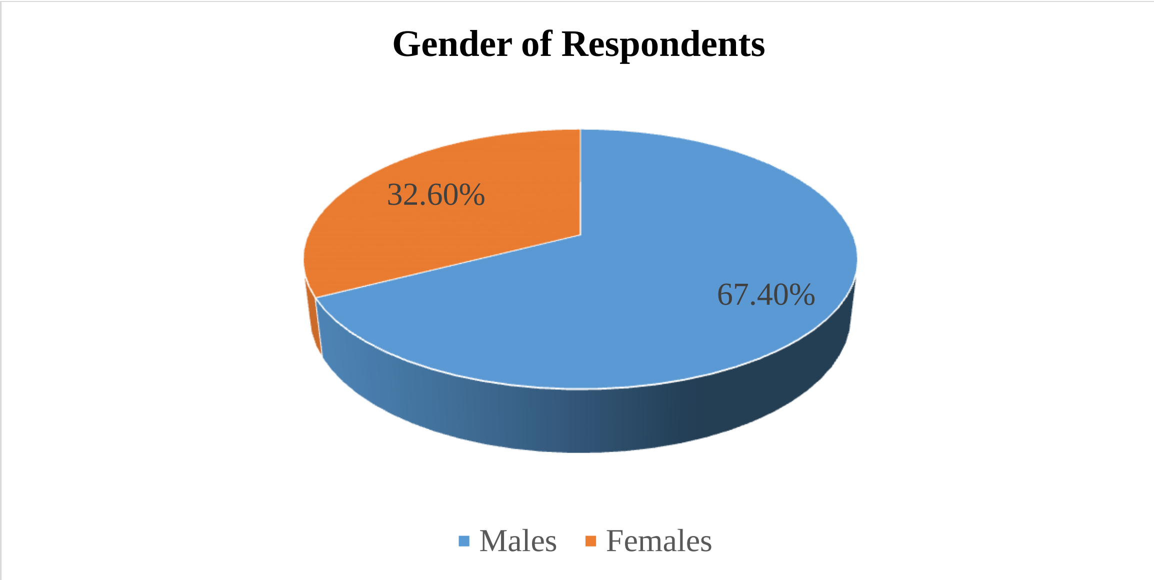
4.0 Introduction

The previous chapter dealt with the methodological concerns associated with the study. This section of the study however analyses data gathered from respondents and presents them in tables and pie charts. Data analysis and presentation starts with the demographic variables of the study such as gender, age, educational background, marital status and employment status. The research objectives were considered in analyzing other sections of the study. Out of eighty (80) questionnaires administered to residents of Kumasi, seventy (72) were retrieved by the researcher which translate to a response rate of 90%.

4.1 Demographic Data

This segment of the analysis deals with the demographic variables of the respondents who participated in the study. The variables analysed in this section are: gender, age, marital status, educational level and employment status.

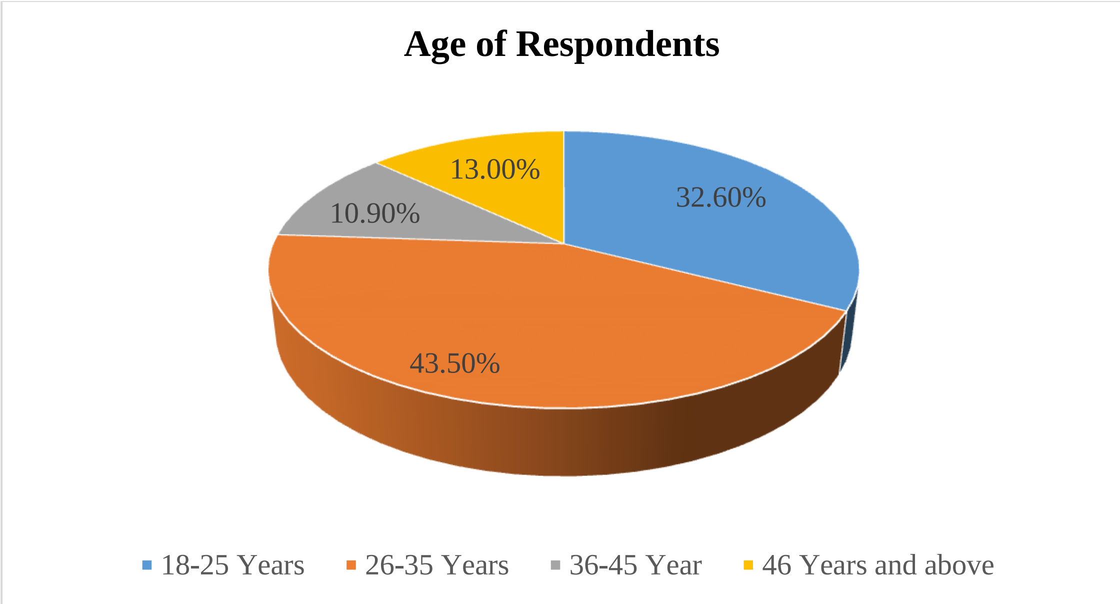
Figure 1: Gender of Respondents



Source: Field data, 2015

Figure 1 is a distribution of the respondents' gender. From the figure, females constitute 32.6% of the respondents whiles 67.4% of the respondents were males. Thus males played an integral role in the study than their female counterparts.

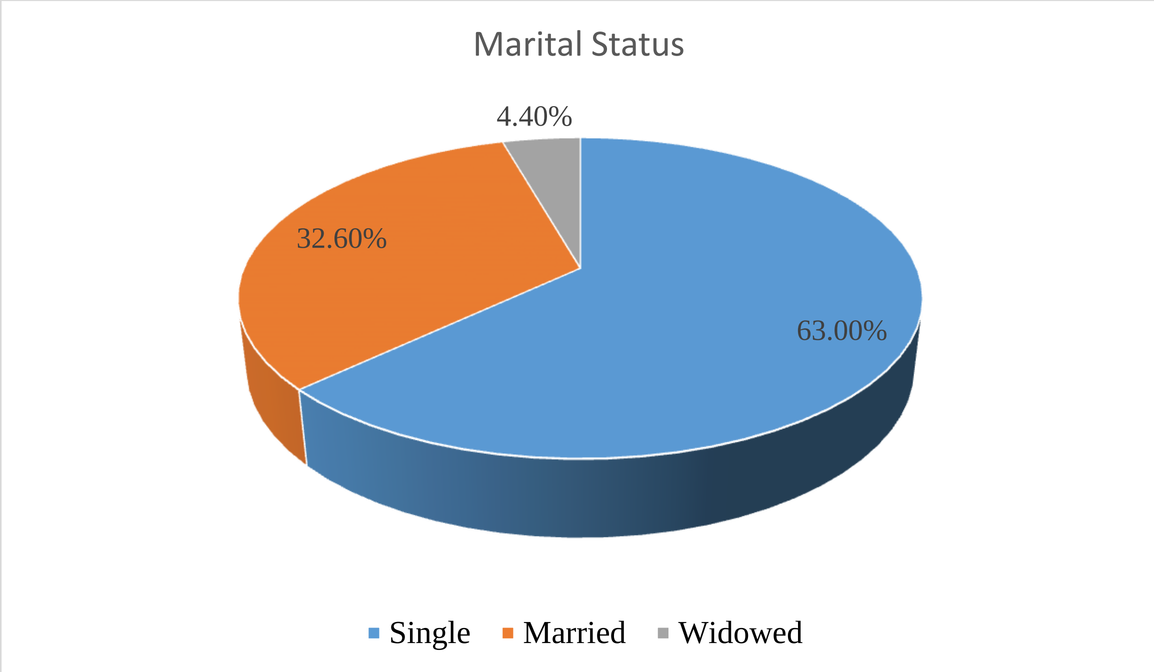
Figure 2 Age of Respondents



Source: Field data, 2015

Figure 2 provides a distribution of the age of the respondents for the study. According to figure 2, 10.9% and 13.0% of the respondents were aged between 36-45 Years and 46 Years and above respectively whiles 32.6% and 43.5% of the respondents were also aged between 18-25 Years and 26-35 years respectively. From these findings therefore, it could be deduced that, majority of the respondents are young and middle aged adults.

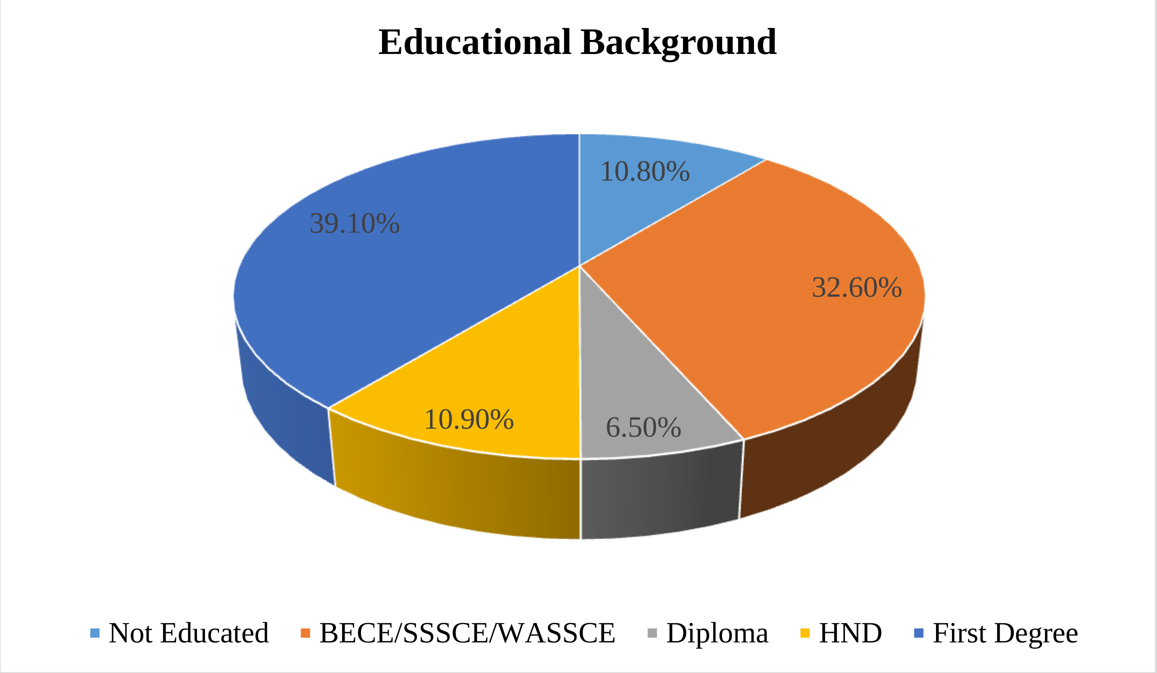
Figure 3: Marital Status of Respondents



Source: Field data, 2015

Figure 3 shows the marital status of the respondents. According to figure 3, 4.4% of the respondents were widowed at the time of the data collection. On the other hand, 32.6% of the respondents were married while 63.0% of them were unmarried. This gives an indication that, majority of respondent who participated in the study were single.

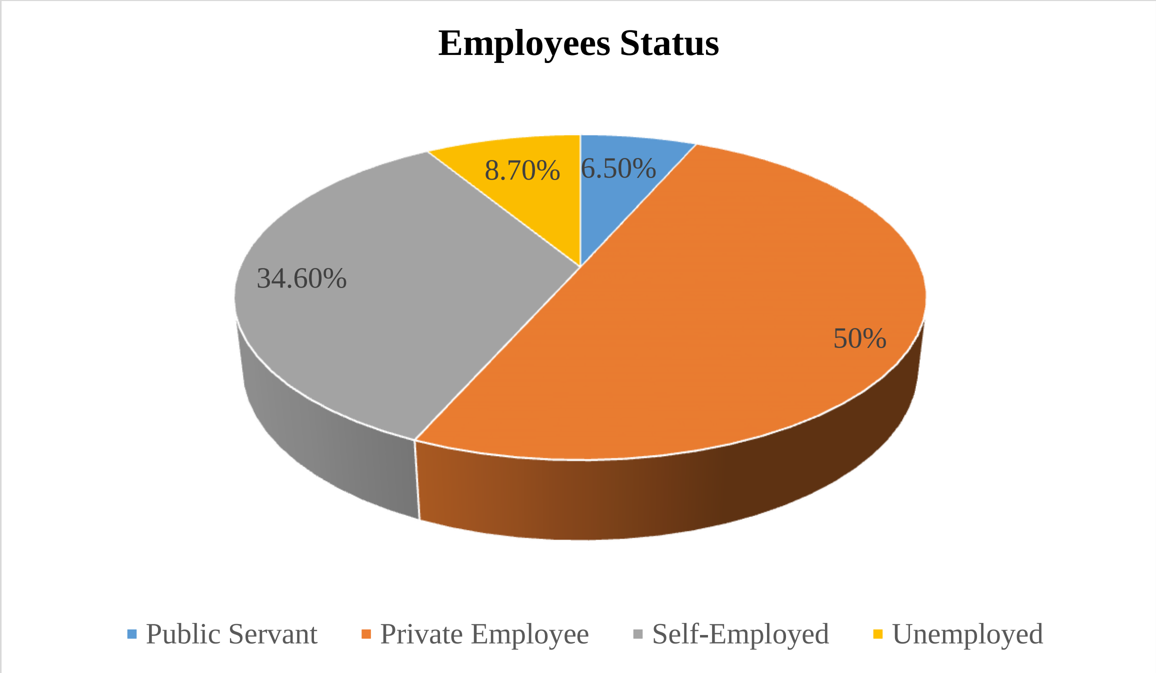
Figure 4 Educational Background of Respondents



Source: Field data, 2015

Figure 4 represents the level of education attained by the respondents. Based on figure 4, 10.8% of the respondents had not attained any education and were thus not educated. Also, 32.6% and 6.5% of the respondents had attained either a BECE, SSSCE or WASSCE and Diploma respectively. Furthermore, 10.9% and 39.6% of the respondents have also attained an HND and First Degree respectively. From the figure, we could conclude that most of the respondents have attained a good level of education and hence can understand the content of the research questionnaire and produce the relevant information that the researcher was looking out for.

Figure 5 Employment Status



Source: Field data, 2015

Figure 5 represents the status of employment of the people studied. From the figure, 8.7% of the respondents were unemployed. However, 6.5% of the respondents studied were employed in the government sector as public servants while 50% of the respondents were employed in the private sector. Moreover, 34.6% of the respondents were self-employed. This gives the indication that, most of the respondents are gainfully employed in various sectors and hence are likely to engage in both conventional banking and microfinance banking. Hence they can provide the researcher with much accurate information based on their varying experiences.

4.2: THE EXTENT OF PATRONAGE OF MICROFINANCE PRODUCTS AND SERVICES BY CONSUMERS IN THE KUMASI METROPOLIS.

Table 4.1 Have you had any business transaction with any microfinance institution?

Response	Frequency	Percent %
Yes	54	74.0
No	18	26.0
Total	**72**	**100.0**

Source: Field data, 2015

Table 4.1 Examined whether the respondents used in this study have had any business transaction before with any microfinance institution. From table 4.1, 74% of the respondents indicated that they have had business transaction with a microfinance before whiles 26% indicated that they have never had any business transaction with any microfinance institution. Therefore, from table 4.1, it could be concluded that majority of the respondents have had business transaction before with a microfinance institution.

4.2 If yes, how long have you had business with the microfinance institution?

Response	Frequency	Percent %
Below 1 Year	11	20.6
1-2 Years	20	38.2
3-5 Years	11	20.6
6 Years and above	12	22.2
Total	**54**	**100.0**

Source: Field data, 2015

Table 4.2 assessed the number of years the respondents who indicated that they have had business transactions with microfinance institutions. According to table 4.2, 20.6% each of the respondents indicated that they have transacted business with microfinance institutions for below 1 years, 3-5 years and 6 years and above whiles 38.2% indicated that they have transacted business with microfinance institutions for a period between 1-2 years. The table therefore gives an indication that, respondents have spent quite a good number of years transacting business with microfinance institutions.

Table 4.3: Type of Microfinance Institution that Respondents transact Business With

Response	**Frequency**	**Percent %**
Rural and Community banks	11	19.6
Savings and Loans companies	31	56.5
Susu Companies	13	23.9
Total	**54**	**100**

Source: Field data, 2015

Table 4.3 assessed the type of microfinance institution patronised by the respondents. According to the table, 19.6% of the respondents indicated that they patronise Rural and Community Banks, 23.9% indicated that they patronise Susu companies whiles 56.5% also indicated that they patronise Savings and Loans Companies. From table 4.3, it could be concluded that majority of the respondents patronise Savings and Loans companies among all the various types of microfinance institutions.

Among some of the service the respondents indicated that they patronise from their various microfinance institutions of choice are current account, fixed deposit, salary account, savings, loans and susu services.

Table 4.4 Do you have an account with any other commercial bank

Response	**Frequency**	**Percent %**
Yes	23	43.5
No	31	56.5
Total	**54**	**100**

Source: Field data, 2015

Table 4.4 assessed whether the respondents used for the study have accounts with other commercial bank. From the table, 43.5% indicated that they had accounts with any other commercial banks while 56.5% indicated that they had no account with any other commercial bank. From table 4.4, a conclusion could be drawn from the study that majority of the respondents used in conducting the study had no account with other commercial banks.

Among some of the reasons given by the respondents as to why they had no accounts with the conventional or commercial banks are: Lower Income Levels, Too many documentations, Lack of fluency in the English Language, Lack of insight with modern day banking as well as distance issues.

4.3 PERCEPTION OF CONSUMERS ABOUT THE COLLAPSE OF MICROFINANCES IN THE KUMASI METROPOLIS

Table 4.5 Have you heard or seen any microfinance institution collapse before?

Response	Frequency	Percent %
Yes	54	100
No	-	-
Total	**54**	**100**

Source: Field data, 2015

Table 4.5 conducted an assessment on whether the respondents have heard of the collapse of any microfinance institution. Unanimously, all the respondents assented that indeed they have heard the collapse of a microfinance institutions.

Table 4.6 Have you been affected by a collapse of any MFI?

Response	Frequency	Percent %
Yes	19	34.8
No	35	65.2
Total	**54**	**100**

Source: Field data, 2015

Table 4.6 determined whether the respondents have been disadvantaged by the collapse of microfinance institutions. As per the table, 34.8% of the respondents indicated that they have been affected by the collapse of a microfinance institution whiles 65.2% indicated that they have not been affected by the collapse of any microfinance institution. This gives the indication that, perhaps, because respondents also engage in transactions with other conventional banks, they do not cast all their investments and income in the hands of microfinance institutions hence the reason why they are not affected by the collapse of microfinance institutions.

Table 4.7 Has the collapse of other microfinance institutions negatively influenced your decision to transact business with microfinance institutions?

Response	Frequency	Percent %
Yes	38	69.6
No	16	30.4
Total	**54**	**100**

Source: Field data, 2015

Table 4.7 measures whether the collapse of other microfinance institutions have negatively influenced the decisions of the respondents in transacting business with microfinance institutions. From the table, 69.6% of the respondents indicated that the collapse of other microfinance institutions has negatively influenced their decisions of transacting business with microfinance institutions whiles 30.4% of the respondents indicated that the collapse of other microfinance institutions has not negatively influenced their decisions to transact business with microfinance institutions. The researcher therefore deduces from this finding that, perhaps because of the frequent collapse of microfinance institutions, consumers are very sceptical about the activities of microfinance institutions since they are not confident that their investments can yield good returns. Hence their negative perception about microfinance institutions.

Table 4.8 In general, thinking of the collapse of some microfinance institutions, do you think microfinance institutions are trust worthy?

Response	**Frequency**	**Percent %**
Yes	12	21.7
No	42	78.3
Total	**54**	**100**

Source: Field data, 2015

Table 4.8 assessed how respondents think about the trustworthiness of microfinance institutions despite their continuous collapse. As per table 4.8, 21.7% of the respondents indicated that indeed microfinance institutions are trustworthy despite the collapse of other microfinance institutions whiles 78.3% of the respondents indicated that they do not think of microfinance institutions as being trustworthy. From the table, it could be concluded that the rampant collapse of microfinance institutions in the country in affecting negatively the trustworthiness of microfinance institutions in the country.

Among those who prefer the microfinance institutions to the conventional commercial banking institutions, they gave the following reasons:

i. There are relatively less queues at the offices of microfinance institutions

ii. There are competitive banking rates on our deposits

iii. Documentation is very fast during loan application

iv. There is easy access to banking and bureaucracy is well minimized.

v. Procedure of transacting business are friendly, concise and flexible

vi. They do not ask for more documents and at times, no collaterals in terms of loans

vii. Microfinances do provide swift response when clients have issues.

However, for those who do not patronise the services of microfinance institutions, the following are some of the reason given:

i. Microfinances are not able to operate

ii. Traditional banks have existed for very long time without collapsing

iii. Traditional banks could be trusted more than microfinance institutions.

Table 4.9 Will you continue banking with microfinance finance institutions considering the rampant collapse of microfinance institutions?

Response	Frequency	Percent %
Yes	21	39.1
No	33	60.9
Total	**54**	**100**

Source: Field data, 2015

Table 4.9 assessed whether the respondents would continue banking with microfinance institutions. From the table 39.1% indicated that they would continue banking with microfinance institution whiles 60.9% indicated that they would not continue banking with microfinance institutions. From the table, it could be deduced that a good proportion (33) of the study group would not continue banking with microfinance institutions again perhaps because they cannot trust the sustainability of microfinance institutions.

For the respondents who asserted that they will continue banking with microfinance institutions, the following reasons were given:

i. There are few paper works especially when accessing loans from microfinance institutions
ii. In some instance, microfinances provide very flexible access to loans which does not even require collateral.
iii. The customer service delivery of microfinance institutions is very good.
iv. Some of the microfinance institutions have good management systems put in place which ensures their efficiency.

Also, for the respondents who indicated that they will not be banking with microfinance institutions, they gave the following reasons as to why they will not bank with microfinance institutions.

i. Most microfinance institutions are not networked in many parts of the country
ii. Clients do feel insecure because of the rampant collapse of microfinance institutions.
iii. Microfinance institutions are not reliable
iv. Microfinance institutions are not trustworthy

Table 4.10 Considering the rampant collapse of microfinance institutions, would you recommend microfinance institutions to someone?

Response	Frequency	Percent %
Yes	18	32.6
No	26	67.4
Total	**54**	**100**

Source: Field data, 2015

Table 4.10 carried out an assessment to determine whether respondents would recommend microfinance institutions to other people who are not much engaged in banking activities considering the rampant collapse of microfinance institutions in the country. According to the analysis from table 4.10, 32.6% of the respondents indicated that despite the rampant collapse of some microfinance institutions, they would recommend microfinance institutions to other non-banked people in their locality whiles 67.4% of the respondents also indicated that they would not recommend microfinance institutions to other non-banked people in their communities.

Some of the reasons cited by those who indicated that they would recommend microfinance institutions to other non-banked people in their community are:

i. There is little or no stress when you need your cash or financial assistance
ii. Some microfinance institutions have the capacity to payback matured investment on time
iii. They are trust worthy
iv. Basically, MFIs are on constant marketing and are developing ways to get to the people

On the other hand, some of the reasons cited by those who indicated that they would not recommend microfinance institutions to the non-banked in their communities are:

i. Microfinance institutions do not last long because of our economy
ii. Microfinances do collapse easily and in most instances they run away with the money of their customers.
iii. Most customers are unable to get their money back when microfinance institutions collapse.

4.4 THE IMPACT OF THE COLLAPSE OF MICROFINANCES ON THE GROWTH AND DEVELOPMENT OF OTHER EXISTING MICROFINANCE INSTITUTIONS

To determine the impact of the collapse of microfinance institutions on the growth and development of existing microfinance companies, one of the managers of a reputable microfinance was interviewed. For confidentiality purposes, the name of the manager and his current place of work are withheld for the sake of ethical issues concerning anonymity and confidentiality. However, the responses from the interview are presented in the following paragraphs.

Firstly, the interviewee was asked about some of the factors that leads to the rampant collapse of microfinance institutions in the country. In his response he mentioned an array of factors which brings about the collapse of microfinance companies in the country. The factors mentioned include the following: bad management policies of microfinance institutions, the rampant collapse of businesses of consumers, high interest rates paid by microfinance companies on the fixed deposits of their clients and high capital expenditure. The interviewee further asserted that, microfinances normally collapse as a result of their low capital base, poor liquidity management, weak internal controls, poor customer service and also the fraudulent activities of some of their employees.

For a stabilization of operations of microfinance institutions in the country, the interviewee mentioned that, there is the need for microfinance institutions to have a disciplined staff and workforce. Thus, microfinance institutions are supposed to ensure that their employees are very much customer centred and also focused enough to recover effective repayment of loans from clients. According to the interviewee, other measures that can be put in place to ensure the sustainability of microfinance institutions in the country include the following: reduction in interest rate on loans and fixed deposits, ensuring appropriate management of capital expenditure, provision of enough cash reserve to meet immediate obligations, ensuring good cash management practices and strong internal controls. Other measures emphasized by the interviewee include the establishment of good customer complaints management, increasing the branch vault balance, avoiding investments in fixed assets and also disbursement of quality loans.

When the interviewee was asked of his perception about the ways through which the collapse of other microfinance institutions have affected the growth of existing microfinance institutions, the following were elaborated. First and foremost, the interviewee attested that prospective customers to microfinance companies have lost confidence in existing ones and that has negatively affected their deposits with existing microfinance institutions. Another negative impact of the collapse of microfinance institutions on the growth and development of existing ones is that, customers of existing microfinance institutions out of fear normally make sure that they withdraw a considerable amount of their funds from the accounts in existing microfinance institutions in order to feel safe with their money. Moreover, the interviewee resented that, there are instances whereby customers involve themselves in “panic withdrawals” especially during instances where they hear about the collapse of a microfinance company in the country. According to the interviewee, such a behaviour bring about serious liquidity issues which eventually leads to the collapse of existing microfinance institutions. The interviewee finally talked about the loss of trust in existing microfinance institutions as a result of the collapse of other microfinance companies in the country.

The interviewee also mentioned that, the collapse of other microfinance institutions in previous years has negatively affected the profitability of his current place of work which is also a microfinance company. He further mentioned that, because people hold negative perceptions about the sustainability of microfinance institutions in general, his company is also suffering greatly because, customers are not investing anymore and also most of their clients are in doubt considering how long the company will exist. The interviewee further resented that, customers are actually scared to invest with his current company and also it takes a lot of effort for clients to make deposits.

According to the interviewee, his current microfinance institution has a policy to attract the rural and urban poor in society. From his standpoint, they have different savings and loans products that attracts the interest of the rural and urban poor to patronize their services. The policy is such that, the rural and urban poor are encouraged to engage in savings which enables them to access loans for their business with just a very little interest rate.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY

5.0 Introduction

This chapter specifically summarises the findings, conclusion of the research and recommendations provided by the researcher.

5.1 Summary of Findings

This research assessed financial inclusion and the threat of collapsing microfinance institutions in the Kumasi Metropolis. Specifically, the study sought to ascertain how extensive people patronize services of microfinance institutions in the Kumasi Metropolis. Further, the study aimed at finding the perception of individuals on the collapse of microfinance institutions in the Kumasi Metropolis and also unearths the impact of the collapse of microfinance institutions on the growth and development of existing ones.

The study found that, most of the respondents who participated in the study have had transactions with microfinance institutions for a considerable number of years in their lifetime. Among the category of microfinance institutions patronized by respondents were rural and community banks, savings and loans companies and also susu companies. However it was found that, some of the respondents also have accounts with other commercial banks apart from the various services they assess from microfinance institutions.

The study also found that, all the respondents have either heard or witnessed the collapse of a microfinance institution in their lifetime. However, most of the respondents attested that, they have not been negatively affected by the collapse of microfinance institutions perhaps because they do not invest a major part of their income in microfinance products and services. It was also found that, the collapse of microfinance institutions have negatively affected the decisions of respondents to transact businesses with existing microfinance companies. It was also confirmed that, majority of the respondents do not think that microfinance institutions are trustworthy and hence they are not willing to recommend them to other people. The findings of the study also attested that, most of the respondents are not willing to continue transacting business with microfinance institutions because of the frequent collapse of most microfinance companies in the country.

In assessing the impact of the collapse of microfinance institutions on the growth and development of existing, the manager of a reputable microfinance company in the country attested that, the collapse of microfinance institutions in previous years has negatively affected the profitability of existing microfinance companies to a greater extent. According to the respondent, customers are very scared to invest their monies in microfinance companies because of the failing trend of other microfinance institutions. The respondent further mentioned that, customers hardly engage in deposits because they are not sure of the sustainability of exiting microfinance institutions. However the respondent asserted that, his company have been able to put measures in place to ensure that, the rural and urban poor in society get attracted to the product and services of his current microfinance company. According to him, the policy is such that, with the few savings from the rural and urban poor, the company provides them with flexible loans at a very minimum interest rate in order to enhance the business activities of the rural and urban poor.

5.2 Conclusion

This study has assessed the financial inclusion and the threat of microfinance institutions in the Kumasi Metropolis. Based on the outcome derived from the study, the researcher gives the conclusion that, the frequent collapse of microfinance institutions in the country has brought about negative perceptions among individuals from all spheres of life. However, because of the negative perceptions held by people because of the collapse of microfinance institutions, most individuals are not willing to transact businesses with microfinance companies because they cannot trust their sustainability. The researcher further asserts that in spite of the frequent collapse of microfinance institutions, they still strategize to capture the rural and urban poor to transact business with them by coming up with different attractive products and services that seeks to capture the hearts and minds of the rural and urban poor who normally do not engage in commercial banking activities.

5.3: Recommendations of the Study

Based on the above findings derived from the study, the researcher wishes to recommend the following:

Firstly, the government and Bank of Ghana together with other stakeholders must create much awareness to the public about the activities of microfinance institutions which are not qualified to operate in the country. This is because, from the researchers' observation, most of the microfinance institutions that normally collapse are those which do not operate with licenses and have very little capital strength to operate in the country. Therefore in order for Ghanaians to gain good trust in the activities of microfinance institutions and be willing to transact businesses with them, the bad nuts should be well exposed so that people will be optimistic to engage in business transactions with certified microfinance institutions in the country.

Secondly, existing microfinance institutions that are certified and operating with a credible license must be focused on designing more products and services that will attract and meet the financial needs of the rural and urban poor in the country. This is because, these category of people normally do not engage in banking activities with the traditional and conventional banks, hence the need to capture them and improve on their lives through low interest and flexible loan systems.

Finally, the Bank of Ghana must come up with the list of microfinance institutions that are duly registered and have the license to operate in the country. This will enable consumers to know which microfinance institutions to transact businesses with. Moreover, it will compel microfinance institutions that have no certificate to operate to ensure that they are licensed in order for them to gain the confidence of consumers.

5.4 Directions for Future Studies

This study assessed financial inclusion and the threat of collapse among microfinance institutions in the Kumasi Metropolis. Because of the major limitation in the geographical catchment within which the study was conducted, the researcher recommends that future researchers can replicate this study in other regions of Ghana such as Greater Accra, Brong-Ahafo, Central Region, and other regions where the activities of microfinance institutions are prominent

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APPENDIX

QUESTIONNAIRE FOR DATA COLLECTION

Section A: **Personal Data**

1. Sex: Male ( ) Female ( )

2. Age groups: 18-25year { } 26-35years { }
36-45years { } 46 and above { }

3. Marital status: Single { } Married { } Widowed { } Divorced { }

4. Educational level: SHS/SSS { } Diploma { } HND { } 1st Degree { }
Masters' degree { } Others { } Please specify if Other…………………………

5. Employment Status: Government Employee { } Private Employee { }
Self-Employed { } Unemployed { } Student { }

Section B: PARONAGE OF MICROFINANCE PRODUCT AND SERVICES BY CONSUMERS IN THE KUMASI METROPOLIS

1. Do you have any business transaction with any microfinance institution?
   Yes { } No { }
2. If yes to (1) above, how long have you had business with the microfinance institution?
   Below 1 year { } 1-2 years { } 3-5 years { } 6 years and above { }
3. Which of the microfinance institutions below do you operate with?
   Rural and Community Banks { }
   Savings and Loans Companies { }
   Credit Unions { }
   Susu { }
   Others { }, Pls Specify
4. Which product do you patronise from your microfinance institutions?
   Fixed deposit { }
   Savings { }

Loans { }

Salary { }

Current Account { }

Others { }. Pls Specify

5. Do you have an account with any other commercial bank?

   Yes { } No { }

6. If no to (5) above, kindly give reasons why you do not have an account with a commercial bank. (pls tick as many as applicable:

   Too many documentations { }

   Lower income { }

   Unpredictable income { }

   Distance { }

   Others { }

SECTION C: PERCEPTION OF CONSUMERS ABOUT THE COLLAPSE OF MICROFINANCES IN THE KUMASI METROPOLIS

7. Have you ever heard or seen any microfinance institution collapse before?

   Yes { } No { }

8. If your answer to (7) above is yes, do you think the collapse of the microfinance institutions has influenced your decision to transact business with a microfinance institutions?

   Yes { } No { }

9. If yes to (8) above, what was the influence of the collapse of that microfinance institution on other microfinance institutions?

   Positive { } Negative { }

10. In general, thinking of the collapse of some microfinance institutions, do you think microfinance institutions are trustworthy.

    Yes { } No { }

11. In general, why do you prefer microfinance institutions to formal banking institutions?

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…………………………………………………………………………………………

12. Will you continue banking with microfinance institutions considering the rampant collapse of microfinance institutions?

Yes { } No { }

13. Kindly give reason for answer for (12) above?

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…………………………………………………………………………………………

14. Considering the rampant collapse of microfinance institutions, would you recommend microfinance institutions to someone?

Yes { } No { }

15. Kindly give reasons for your answer for your answer for (14) above?

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Interview Guide for Management of a Microfinance Institution

1. In your opinion, what are some of the factors that lead to the collapse of Microfinance Institutions in Ghana?

2. What are some of the measures put in place to stabilize the operations of your Microfinance Institution?

3. From your point of view, in what ways has the collapse of other microfinance institutions affected the growth and expansion of your current MFI?

4. Does your Microfinance Institution have a policy to attract the rural and urban poor to patronize its services? a) Yes b) No

5. If yes, to what extent will you say that such a policy has been successful?

6. If No, what are some of the reasons why such a policy has not been successful?